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## **EFRAG Discussion Paper on the statement of cash flows**

### **Cover Note**

#### **Objective**

- 1 The objectives of this session are to:
  - (a) approve for publication, EFRAG’s Discussion Paper *The Statement of Cash Flows—Objectives, Usages and Issues* (the ‘DP’)
  - (b) decide on the comment period related to the DP.

#### **EFRAG’s discussion paper on the statement of cash flows**

- 2 Following the 2021 consultation on EFRAG’s research agenda, EFRAG decided in June 2022 to include on its research agenda a project on the statement of cash flows (see [EFRAG feedback statement](#)).
- 3 The DP will provide initial input the IASB’s project on the statement of cash flows and related matters which the IASB decided to start at its [September 2024 meeting](#).
- 4 Following consultations with the IASB, it was decided that the DP should:
  - (a) list and briefly discuss different alternative objectives/uses of the statement of cash flows
  - (b) list the issues with current requirements/practice
  - (c) discuss whether the IASB could consider the issues by targeted amendments, or a comprehensive review would be necessary to deal with the issues in a satisfactory manner.
- 5 At its 13 September 2024 meeting, EFRAG FR TEG decided to recommend the EFRAG FRB to publish the DP.

#### **Input received from EFRAG FRB, EFAG FR TEG, EFRAG FIWG and EFRAG IAWG**

- 6 In preparation for approving the DP for publication, the EFRAG FRB discussed the DP at its [17 July 2024](#) meeting. At that meeting, EFRAG FRB proposed some changes to the DP. These changes, together with the changes decided by EFRAG FR TEG at its [1 July 2024](#) and its [13 September 2024](#) meetings (at which EFRAG FR TEG also considered feedback from the EFRAG FIWG and EFRAG IAWG) are summarised in the Appendix and have been reflected in the DP. For the comments made by the EFRAG FRB, the Appendix describes how/where the comments have been reflected.

### **Consultation period**

- 7 The EFRAG Secretariat is proposing issuing the DP with a six-month consultation period (until the end of April 2024). The EFRAG Secretariat notes that on the one hand, the DP is expected to be published during a particularly busy period for some of EFRAG’s stakeholders. This would be an argument for a long comment period. On the other hand, as the IASB has started its project on the statement of cash flows and related matters, the input EFRAG would receive in response to its DP could likely be more helpful for and influential on the IASB’s decisions related to the project the earlier the information is collected.

#### **Questions for EFRAG FRB**

- 8 Does the EFRAG FRB have any remaining concerns or suggestions that need to be addressed prior to the publication of the DP?
- 9 Does the EFRAG FRB approve the proposed DP on the statement of cash flows for issuance?
- 10 Does the EFRAG FRB have any comments on the consultation period timeframe proposed by the EFRAG Secretariat in paragraph 7 above?

### **Next steps**

- 11 EFRAG will publish the DP for public consultation after amending the DP as decided by the EFRAG FRB. Before publishing the DP, it will be subject to an editorial review during which also the graphical content will be improved.

### **Agenda Papers**

- 12 In addition to this cover note, Agenda Paper 12-02 EFRAG’s DP on the statement of cash flows has been prepared for this session.

## Appendix – EFRAG FR TEG’s comments on the proposed DP

- 13 Input and suggestions of EFRAG FR TEG, FRB, FIWG, IAWG (financial institutions chapter) in response to the [draft DP](#). The input is categorised by the chapters it relates to.

### *General comments*

- 14 Include illustrative examples to engage users [EFRAG FR TEG].
- 15 As it would be difficult to satisfy all user needs with one statement of cash flows, it should be discussed what should be in the statement of cash flows and what should be in additional notes [EFRAG FRB]. This issue has been addressed by including a question for constituents on this in Question 3 in the DP.

### *Executive Summary*

- 16 Include a condensed version of the table describing how the various identified issues affect the deduced objectives of the statement of cash flows in the executive summary [EFRAG FR TEG].

### *Chapter 2 and 3 Objectives and usages (now Chapter 2)*

- 17 Merge Chapters 2 and 3 related to the objectives and usages of the statement of cash flows. [EFRAG FR TEG].

### *Chapter 4 Issues for non-financial entities (now Chapter 3)*

- 18 Ensure issues are described in a way that it does not indicate that EFRAG has taken a position [EFRAG FR TEG].
- 19 Prioritise issues by presenting them in order of importance. For example, direct/indirect method and aggregation/disaggregation should be placed lower on the list of issues, as they are less important compared to other issues [EFRAG FR TEG].

### *Issues with included/excluded transactions*

- 20 Separate sections on included/excluded transactions into ‘cash and cash equivalents’, ‘agent/principal issues’, ‘and non-cash transactions’ [EFRAG FR TEG].
- 21 Acknowledge that a less prescriptive definition of cash and cash equivalents allows preparers to better reflect their business [EFRAG FR TEG].
- 22 Acknowledge that including non-cash transactions in the statement of cash flows could confuse users, as this information is already available in other financial statements [EFRAG FR TEG].
- 23 Acknowledge that considering only capitalised expenses as outflows from investing activities would benefit consistency across financial statements [EFRAG FR TEG].

### *Issues with classification*

- 24 Investigate the use of APMs. One of the most important issues is the distinction between operating, investing and financing cash flows, and this information should be useful. One issue was how to deal with cash flows related to leases, and APMs should be investigated. On this issue the question of non-cash transactions was also relevant [EFRAG FRB]. The issue on cash flows related to leases is covered in Chapter 3. The EFRAG Secretariat in addition examined the use of APMs in financial reports that relate to the statement of cash

flows. A footnote in the section ‘Definitions of measures’ in Chapter 3 is summarising the findings.

*Insufficient disclosures*

- 25 Acknowledge that some disclosures are more useful to be presented in the statement of profit or loss or statement of financial position, rather than the statement of cash flows (e.g., information on accruals represented by contract assets and contract liabilities, liquidity disclosures under IFRS 7) [EFRAG FR TEG].
- 26 Include an example of supplier finance arrangements affecting the statement of cash flows in the disclosures section [EFRAG FR TEG].

*Presentation of cash flows from operating activities*

- 27 Differentiate the impact of direct/indirect methods for different types of stakeholders [EFRAG FR TEG].

*Definitions*

- 28 Include a suggestion that instead of defining terms like free cash flows, entities should be required to provide disclosures and reconciliation of these measures (e.g., free cash flows), similar to the MPM requirements in IFRS 18 [EFRAG FR TEG].
- 29 Investigate further the current usage of alternative performance measures. It should be explored whether similar requirements related to MPMs under IFRS 18 should be extended to the statement of cash flows [EFRAG FRB]. This approach has been included in the section on definition of measures in Chapter 3.
- 30 Include different views on the usefulness of defining free cash flows and net debt (it was thought it would not be possible to define maintenance and growth capital expenditures). One view would be that it would be useful to define these KPIs as there were currently calculated and used inconsistently by analysts. Another view was that it would not be possible to agree on a uniform way of calculation, as different users making corporate valuations, would calculate it differently [EFRAG FRB]. These views are represented in the section on definition of measures in Chapter 3.
- 31 Acknowledge that the definition of capital expenditures could also be important for sustainability reporting [EFRAG FRB]. This comment has been included in a footnote when discussing how the issues related to classification.

*Cohesiveness with the other two primary financial statements*

- 32 Present cohesiveness issues in a more balanced way and acknowledge that users may prefer cohesiveness between the statement of profit or loss and the statement of cash flows, especially when they are used to the categories in the statement of profit or loss as required by IFRS 18. Contrarily, it should be acknowledged that the statement of cash flows and the statement of financial position serve different purposes [EFRAG FR TEG].
- 33 Differences in the categorisation between the statement of profit or loss and the statement of cash flows could create uncertainties for users [EFRAG FRB]. This comment has been reflect in the section in Chapter 3 on the cohesiveness with the other two primary financial statements.

*Chapter 5: Alternatives to the statement of cash flows (now Chapter 4)*

- 34 Include the statement of changes in working capital, changes in other liquid assets and changes in assets used in liquidity management as alternatives to the statement of cash flows [EFRAG FR TEG].
- 35 A disclaimer stating that the alternatives presented are just suggestions, similar to the disclaimer already included in other parts of the document should be included. A similar disclaimer would be included for the alternatives presented in Chapter 5 [EFRAG FR TEG].

*Chapter 6: The statement of cash flows from financial institutions (now Chapter 5)*

- 36 The usefulness of the statement of cash flows for financial institutions (both banks and insurance companies) should be questioned [EFRAG FR TEG, FRB, FIWG, IAWG]. This has been reflected in Chapter 6.
- 37 Consider the EFRAG's 2015 DP on the usefulness of statements of cash flows for financial institutions [EFRAG FR TEG].
- 38 In September 2024, consult FIWG and IAWG for the financial institutions section, and in particular to explore additional alternatives for the statement of cash flows [EFRAG FR TEG].
- 39 For banks and insurance companies, the statement of cash flows is not the most useful for predicting dividends, (for banks the ECB needs to approve them based on financial ratios and for insurance companies the ability to pay dividends is based on other regulatory frameworks than IFRS) [EFRAG FR TEG].
- 40 Include a reference in the business model section to IFRS 18 regarding the requirements to assess the main business activity and the reclassification of some items from financing or investing categories into the operating category [EFRAG FR TEG].
- 41 Acknowledge the disadvantages of repeating information included in other reports with another purpose and framework [EFRAG FR TEG].
- 42 Include a reference to an academic paper on the value relevance of the statement of cash flows from banks [EFRAG FR TEG].
- 43 Acknowledge that some academic evidence suggests that the statement of cash flows for banks has some value relevance [EFRAG FR TEG].
- 44 It is important to distinguish between banks, insurance companies and pension funds [EFRAG FRB]. The chapter lists the issues separately for banks and insurance companies. Pension funds that are covered by IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. Are not covered in the discussion as these do not have to prepare a statement of cash flows. This is noted in a footnote in the beginning of Chapter 5. Chapter 5 describes that there are many different types of banks and insurance companies. Differences between life and non-life insurance companies has been toned down following a request from the EFRAG IAWG. The EFRAG IAWG, among other things, expressed concern that distinguishing between life and non-life insurance could be considered as a suggestion that insurance companies that would normally cover both types of activities would have to apply different requirements for the two different types of activities. It has not been the intention to suggest such a split.

- 45 It should be considered that users would look at other information such as financial ratios and solvency ratios. Differing views on the usefulness of incorporating prudential regulation into the financial statements should be expressed. It was noted that Basel requirements were based on IFRS reporting [EFRAG FRB]. Different views on the usefulness of incorporating prudential regulation into the financial statements have been included.
- 46 For insurance companies, liquidity could be an issue as cash was invested in fixed income assets which could not be transferred into cash without incurring a loss [EFRAG FRB]. Assessing liquidity is mentioned as a relevant objective of the statement of cash flows for insurance companies.
- 47 The business model of banks may vary across entities, depending on the life-cycle and the area that these entities focus on (e.g., some banks may focus on payment solutions, while others may heavily invest on infrastructure). Therefore, the usefulness of the statement of cash flows may vary across entities [EFRAG FIWG].
- 48 The statement of cash flows does not provide incremental value to other statements and should be therefore replaced by alternative reporting requirements (e.g., statement of changes in debt, additional disclosure requirements) [EFRAG FIWG].
- 49 Input received from users suggested that some use the statement of cash flows from non-life insurers [EFRAG IAWG].
- 50 The particularity of the insurance industry is the reverse cash cycle, and not that cash inflows and outflows occur in the same accounting period. The reverse cash cycle is not only limited to insurance companies and can be true for other industries too (e.g., airlines) [EFRAG IAWG].
- 51 It was considered to assess whether additional information is needed beyond what is already being provided before proposing changes to the statement of cash flows [EFRAG IAWG].
- 52 It was recommended to conduct a cost-benefit analysis for any alternative approaches to the statement of cash flows [EFRAG IAWG].
- 53 It could be considered to eliminate the statement of cash flows for insurance companies, as for example, under IFRS 7 and IFRS 17 a maturity analysis of assets and liabilities is provided, which could be sufficient [EFRAG IAWG].
- 54 Similar to banks, the categorisation of cash flows could also be removed for insurance companies as they do not fully capture the particularities of the insurance business with the related activities such as investing activities [EFRAG IAWG].
- 55 Some of the alternatives would require the use of forward-looking information and which is not the objective of the statement of cash flows [EFRAG FR TEG].
- 56 The usefulness of the various alternatives would depend on the entity's business models and other factors, and therefore entities should be able to elect the alternatives they consider provide the most useful information to users [EFRAG FR TEG].
- 57 There would be audit implication of including information used for other supervisory objectives (the financial statements would either include non-audited information or information that is currently not audited would have to be audited) [EFRAG FR TEG].

- 58 The distinction between life and non-life insurance companies should be toned down or removed if not necessary. It should also be clarified that an insurance company with both activities would not have to perform a split of its activities [EFRAG FR TEG].

*Illustrations and Examples*

- 59 Illustrations should be moved from the Appendix to the sections to which they relate [EFRAG FR TEG].