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Statement of cash flows and related matters

Issues Paper

Objective

- 1 The purpose of this paper is to:
 - (a) provide an update on the IASB research project on *Statement of Cash Flows and Related Matters*; and
 - (b) seek EFRAG FR TEG-CFSS views on perceived deficiencies in the statement of cash flows applying IAS 7 *Statement of Cash Flows* including their prevalence.
- 2 The input received from EFRAG FR TEG-CFSS members will be presented at the ASAF meeting on 5-6 December 2024 and will help the IASB decide on the direction and scope of the project.

Background

- 3 In April 2022, following its Third Agenda Consultation, the IASB added the project on *Statement of Cash Flows and Related Matters* to its research pipeline. In September 2024, the IASB activated the project and moved it to its research work plan.
- 4 At its September meeting, the IASB considered:
 - (a) feedback received in the Third Agenda Consultation on a project on statement of cash flows and related matters;
 - (b) feedback shared by CMAC and GPF members at the June 2024 joint meeting where members were asked about their experiences preparing and using the information presented in the statement of cash flows or disclosed in the notes applying IFRS Accounting Standards; and
 - (c) evidence from academic literature review conducted to identify topics that the IASB might consider in deciding the scope of the project.

- 5 Based on this initial feedback, the IASB identified the following topics it might explore in the project on *Statement of Cash flows and Related Matters*:
- (a) requirements for classifying cash flows;
 - (b) disaggregation requirements for information about cash flows;
 - (c) definition of cash and cash equivalents;
 - (d) requiring the use of direct method;
 - (e) effects of non-cash transactions;
 - (f) information about commonly used cash flow measures; and
 - (g) statement of cash flows for financial institutions.
- 6 During the initial research phase of the project, the IASB plans to decide on the scope of the project by identifying evidence about the nature and extent of the perceived deficiencies in the statement of cash flows through:
- (a) conducting meetings with consultative groups and individual stakeholders;
 - (b) reviewing the results of the projects of national standard-setters;
 - (c) analysing a sample of companies' financial statements; and
 - (d) reviewing related IASB's projects.

Project discussions at ASAF

- 7 At the September 2024 ASAF meeting, AcSB shared the results of their staff research and users' perspectives on the application of IAS 7. They presented potential solutions that the IASB could explore in its project on Statement of Cash Flows and Related Matters mainly related to:
- (a) cash flow measures relevant to users of financial statements;
 - (b) methods of reporting cash flows from operating activities; and
 - (c) the usefulness of the statement of cash flows for the financial services sector.
- 8 ASAF members confirmed that the research findings are generally consistent with the views of their stakeholders, however, there were differences on how to resolve some of the issues raised in the research findings by jurisdiction.
- 9 At the December 2024 ASAF meeting, the IASB Staff plans to provide an update on the preliminary research activities as detailed in paragraph 5, including initial findings from a review of financial statements and feedback received at the CMAC and GPF meetings to be

held before the December ASAF meeting. To capture this feedback an updated version of the IASB agenda paper 04 was circulated by 20 November 2024.

EFRAG's Discussion Paper

- 10 On 20 November 2024, EFRAG published its Discussion Paper on the [Statement of Cash Flows—Objectives, Usages and Issues](#).
- 11 The objective of the [Discussion Paper](#) (the 'DP') is to list the perceived issues with the statement of cash flows as prepared in accordance with IAS 7 Statement of Cash Flows. As encountered issue with the statement of cash flows depends on how the statement is being used / the objectives of the statement, the DP first lists possible objectives of the statement of cash flows and input collected on how the statement is being used by the primary users of financial statements. The DP considers which of the objectives of the statement of cash flows could be affected by each of the listed issues and which objectives might be affected by solutions addressing each of the issues. The DP also presents some alternatives/supplements to the current statement of cash flows, that have been brought to EFRAG's attention.
- 12 The issues identified in the DP are compared with the input collected by the IASB in the table below.

Input collected by the IASB	Input collected by EFRAG
Requirements for classifying cash flows	
<ul style="list-style-type: none"> Classification should follow classification in IFRS 18. 	<ul style="list-style-type: none"> Different views, some consider that classification should follow classification in IFRS 18 others do not think it would be useful to, for example, have capital expenditures in operating activity (to reflect that amortisations would be included in operating activities under IFRS 18).
<ul style="list-style-type: none"> Classification requirements should be revised to provide more detail on capital expenditure, in particular separating capital maintenance from capital growth. 	<ul style="list-style-type: none"> Some would like information on capital expenditure related to capital maintenance versus capital growth. Others (including some users) do not think this would be possible to do.
<ul style="list-style-type: none"> Currently, lack of guidance result in inconsistent classification and diversity in reporting on discontinued operations. 	<ul style="list-style-type: none"> Similar input collected by EFRAG. EFRAG's DP includes a list of cash flows which are classified inconsistently.
<ul style="list-style-type: none"> Users adjust the classification of various items, e.g., related to leases, R&D, (reverse) factoring. 	<ul style="list-style-type: none"> Input collected by EFRAG identified current classifications that may not result in the most useful information (including (but not limited

to) operating leases, tax, situations where cash inflows are classified differently from the related outflow, cash flows to an agent, cash flows related to transaction including a financing component, only classifying expenditures that are capitalised as cash flows from investing activities).

Disaggregation of cash flow information

- Information should be further disaggregated, including: net cash flows attributable to the operating; investing and financing activities of discontinued operations; working capital changes; capital expenditures (including between growth and maintenance); and business segments.
- Input collected by EFRAG also suggests that additional disaggregation is wanted on dividends (they should be split between dividends to controlling versus non-controlling interests) and 'non-cash add-back items' disclosed when operating cash flows are presented using the indirect method.
- IFRS 18 guidance on disaggregation will be helpful.
- Similar input has been collected by EFRAG.

Definition of cash and cash equivalents

- Should consider whether flows of cash should be reported separately from flows of cash equivalents.
- Similar input has been collected by EFRAG. In addition, EFRAG has received information that it could be considered to prepare a statement of changes in other liquid assets (which could provide information on how the entity manages such resources) and/or a statement of changes in assets used in liquidity management.
- Should consider the definition of cash and cash equivalents.
- Similar input collected by EFRAG, but there is no definition that would be best for all purposes.
- Diversity in practice on what is included.
- Similar input collected by EFRAG. However, the view has also been presented that allowing some flexibility helps entities better reflect how they manage cash (based on input from preparers).

Effects of non-cash transactions

- It is often difficult to reconcile the statement of financial position with statement of cash flows.
- Similar input collected by EFRAG has indicated that users have difficulties reconciling the statement of cash flows with the other primary statements.
- Non-cash movements should be presented in the statement of cash flows or disclosed in the notes. Different views among users on whether the information should be in the statement of cash flows or in notes.
- Input collected by EFRAG generally suggests that cash flows of an agent should be included in the cash flow statement of the principal. Certain non-cash transfers, such as payments

by means of own shares should also appear in the statement of cash flows.

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- A statement of changes in net debt should be required according to some.
 - Input collected by EFRAG confirms that some users use a statement of net debt instead of a statement of cash flows. Another suggestion has been a statement of changes in working capital.

Reporting cash flows from operating activities

- The IASB should consider requiring the direct method as the indirect method does not provide decision-useful information such as: cash collected from suppliers and cash flows arising from supplier finance arrangements.
- Input received by EFRAG has generally indicated that European users prefer the indirect presentation of cash flows from operating activities. This presentation highlights figures users should pay attention to (high figures indicate high accruals).
- The direct method would be costly.
- Similar input has been collected by EFRAG.
- Some preparers use the direct method internally.
- There are advantages and disadvantages of each approach
- Similar input has been collected by EFRAG.

Information about commonly used cash flow measures

- Some consider that the IASB should develop standardised definitions of some cash flow measures, for example, free cash flows. Others consider that this would not be useful. It was also suggested to reconcile free cash flows to a consistent starting point.
- Input received by EFRAG has confirmed that free cash flows is an often-used measure. EFRAG has also received different input on whether it would be useful or inappropriate to define non-GAAP measures in Accounting Standards and that an alternative to defining it would be to require entities explaining how it is calculated.
- The IASB should develop additional disclosure requirements that provide information on how companies manage cash inflows and outflows to meet payment obligations, plan for future payments etc.
- EFRAG has similarly received input that disclosure should be provided on liquidity and ability to service debt (including information on unused drawing rights).

Statement of cash flows for financial institutions

- Some stakeholders do not consider the statement of cash flows reflect how financial institutions manage cash and liquidity in practice and it does not effectively distinguish between cash available to shareholders and cash that belongs to customers. They suggest either to remove the requirement to present a statement of cash flows for financial
- Although a few stakeholders have noted that the statement of cash flows is/could be useful for financial institutions, the general feedback EFRAG has received is that it is generally not useful (beyond the information provided elsewhere in the financial statements). The issues are, however, different between, for example, insurance companies and banks.

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institutions or develop a statement of cash flows specifically for financial institutions. Some users have said that the statement can provide some useful information, such as dividend payments. Others that regulatory disclosure requirements provide more useful information about cash and liquidity management.

Various alternatives/additional information to the statement of cash flows have been suggested to EFRAG. These include providing regulatory information in the statement of cash flows. However, the appropriateness of doing so has also been questioned. Also, reference to the different reporting and auditing requirements between regulatory information and financial statement information have been put forward against including information prepared for other regulatory purposes in the financial statements.

13 In addition to the issues included in the table above, input collected by EFRAG suggests that disclosures about the following could also be useful:

- (a) preparation and classification choices made by the entity;
- (b) intercompany cash flows (some users would like to know if an entity in a group is financing investments in another entity in the group);
- (c) restrictions on cash (for example, if cash is located in a subsidiary that is not fully controlled, all the cash of that subsidiary cannot be transferred to other entities within the group by means of dividend payments, as the minority interests of the subsidiary should also have their share of the dividends, and in addition there may be various fees and taxes that would have to be paid when transferring cash (which would reduce the amount of cash that can be transferred));
- (d) non-recurring cash flows;
- (e) impact of business combinations on the statement of cash flows;
- (f) reconciliations.

Questions for EFRAG FR TEG/CFSS

- 14 Does EFRAG FR TEG-CFSS have any feedback from stakeholders in your jurisdiction or have you performed further research that might provide evidence on the nature or pervasiveness of the perceived deficiencies in IAS 7 related to the topics outlined in the table following paragraph 12?