

FEEDBACK STATEMENT

DISCUSSION PAPER ON

The Statement of Cash Flows
– Objectives, Usages and Issues

December 2025



Index

Index	2
Introduction.....	3
Summary of the responses received.....	4
Analysis of responses.....	6
Question 1 – Objectives of the statement of cash flows	6
Question 2 – Usages of the statement of cash flows.....	9
Question 3 – Issues with the statement of cash flows for non-financial entities.....	10
Question 4 – Non-cash transactions	27
Question 5 – Alternatives to the statement of cash flows for non-financial entities.....	28
Question 6 – The statement of cash flows for financial institutions.....	29
Question 7 – Targeted improvements or a comprehensive review?	32
Other comments	34
APPENDIX – List of Respondents	35

Introduction

In November 2024, EFRAG issued the Discussion Paper [The Statement of Cash Flows – Objectives, Usages and Issues](#) (the ‘DP’). EFRAG requested comments by 15 May 2025.

EFRAG is now issuing a feedback statement, which describes the main comments received.

Why was the DP written?

Following EFRAG’s 2021 proactive research agenda consultation, EFRAG undertook a proactive project on the statement of cash flows for the following reasons:

- firstly, because the IASB decided to include a project on the statement of cash flows in its pipeline. An EFRAG project on the statement of cash flows could therefore be helpful for the IASB and could have an impact in the near future;
- secondly, because it presented an opportunity to consider some issues related to supplier finance arrangements. A project on supplier finance was one of the projects that received the most support in the agenda consultation.

For the project to be as helpful for the IASB as possible, the main purpose of EFRAG’s project was to identify and list the current issues with the statement of cash flows, as prepared following IAS 7 *Statement of Cash Flows*. Providing an inventory of these issues would, among other things, be helpful for the IASB when deciding on the scope of its project on the statement of cash flows. However, as the identification of issues could depend on what the statement of cash flows is used for, the DP first examined what the objectives of the statement of cash flows are and how the statement is used.

Responses from constituents

EFRAG received and considered 17 comment letters from constituents. These comment letters are available on [EFRAG’s website](#).

The comment letters received came from academics, users, preparers, national standard setters and a professional organisation.

In addition, input was collected at an outreach event from individual members (preparers and auditors) of a professional organisation.

Purpose and use of this feedback statement

This feedback statement has been prepared as a formal record of the responses received. It summarises the messages received from constituents and notes the key themes identified.

The feedback received on the DP will be used by EFRAG in developing its response to any future IASB proposals arising from the IASB research project [Statement of Cash Flows and Related Matters](#).

This feedback statement should be read in conjunction with [the DP](#), which is available on EFRAG's website.

Summary of the responses received

Objectives of the statement of cash flows

The DP provided a list of possible objectives of the statement of cash flows and asked for views on which of the objectives were the most important. The objective of assessing the ability of the entity to generate cash and cash equivalents was generally considered important. The respondents who explicitly provided an assessment of the objective of assessing management's stewardship considered this objective important. A similar tendency was observed for the objective of being able to compare entities using different accounting treatments. Differing views were expressed on the importance of the objective of evaluating changes in net assets, assessing the entity's financial structure and assessing the entity's ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

Usages of the statement of cash flows

The DP explored how primary users employ the statement of cash flows and sought constituents' input on further potential applications. No additional uses of the statement of cash flows were identified by constituents.

Issues with the statement of cash flows

The DP listed issues with how the statement of cash flows is prepared under IAS 7 that had been brought to the attention of EFRAG (the definition of 'cash' and 'cash equivalents', 'cash flows of an agent', 'non-cash transactions', 'disclosure requirements', 'disaggregation of information', 'definition of measures', 'cohesiveness with other primary financial statements' and 'presentation of cash flows from operating activities'). The DP linked the issues to the objectives of the statement of cash flows that had been deduced in the DP. The DP asked: a) whether respondents agreed with the issues listed, b) whether there were additional issues beyond those listed and c) how the various issues identified should be rated (low, medium or high priority).

In addition to the issues listed in the DP, one respondent noted that the lack of a definition of 'paid interest' caused problems in practice. Apart from that, no additional issues were identified.

Differing views were expressed on the importance of dealing with the definitions of 'cash' and 'cash equivalents'. Particularly, respondents who considered the assessment of the financial structure of an entity to be an important objective of the statement of cash flows seemed to assess issues related to the definitions as important to solve. There was, however, no interest in dealing with the issue by excluding 'cash equivalents' from the statement of cash flows.

Respondents also had differing views on the importance of dealing with the issues relating to cash flows made on behalf of an entity. On this topic, respondents also presented differing views on how these payments should currently be accounted for and what the changes to current requirements, if any, should be.

Differing views were also presented on the issues related to non-cash transactions. Feedback on this issue is further elaborated below.

On the classification of cash flows, there were differing views on the prioritisation of this issue. There was no call for changing the current categories (operating, investing and financing activities) except that some respondents considered that the presentation should reflect how income taxes and discontinued operations are reflected in the statement of financial performance. There were calls for both clarifications and changes to the current classification requirements (that is, what should be included as operating, investing and financing activities, respectively).

Non-financial institution respondents generally considered that more disclosures could be provided in the notes to support the statement of cash flows, but differing views were expressed about the importance of this and the information that should be included in the notes.

The two associations of users commenting on the DP considered disaggregation of information to be a high priority. Other respondents had more mixed views. One of the most frequently mentioned requests was to have a distinction between dividends paid to a parent shareholder and to non-controlling interests.

Definitions of measures (for example, a definition of free cash flows) was not considered to be a high priority. The view was also presented that users, in any case, make their own calculations and that the approach in IFRS 18 *Presentation and Disclosure in Financial Statements* prescribed for management performance measures could be the preferred alternative to defining measures.

Respondents were split on the importance of cohesiveness with other primary financial statements and whether cohesiveness should even be pursued.

On the other hand, no respondents preferred requiring the direct presentation of cash flows from operating activities. The indirect presentation of cash flows from operating activities was generally considered to result in the most useful information and was also the method applied by most European entities.

Non-cash transactions

The DP asked whether some non-cash transactions should be presented in the statement of cash flows or, instead, whether additional disclosures should be provided about these transactions.

Respondents were split on the priority of the issue and on whether non-cash transactions should be presented in the statement of cash flows or, alternatively, be presented in note disclosures. One proposal was that information on non-cash transactions could be provided by requiring an indirect presentation of cash flows from investing activities. The view was also presented that non-cash transactions should neither be presented in the statement of cash flows nor included in note disclosures, as such transactions were outside the scope of the statement of cash flows.

Alternatives to the statement of cash flows for non-financial entities

The DP presented a statement of net debt as an alternative to the statement of cash flows. The DP asked whether the statement of cash flows should be replaced by a statement of net debt.

Respondents generally did not support replacing the statement of cash flows with a statement of net debt or any of the other alternatives presented in the DP.

The statement of cash flows for financial institutions

The DP noted that EFRAG had issued a discussion paper in 2015 on the issues related to the statement of cash flows for financial institutions. All respondents to the 2015 Discussion Paper expressed concerns about the relevance of the statement of cash flows for financial institutions. The DP asked whether anything had changed since 2015, which would justify the issue of the relevance of the statement of cash flows for financial institutions being further examined.

Respondents did not consider that anything had changed since the 2015 Discussion Paper and did not consider the statement of cash flows useful for financial institutions.

Targeted improvements or a comprehensive review

The DP listed advantages and disadvantages of dealing with (some) of the issues in how the statement of cash flows is currently prepared under IAS 7 by targeted improvements, a comprehensive review, or a phased approach, respectively. The DP asked for views on which approach would be preferred and, should the IASB make targeted improvements, on which issues should / should not be addressed.

A clear majority of respondents considered that the IASB should make targeted improvements to IAS 7 instead of performing a comprehensive review. However, there were differing views on which issues should be considered for targeted improvements.

Analysis of responses

Question 1 – Objectives of the statement of cash flows

The DP listed the following identified objectives of the statement of cash flows:

- to evaluate changes in net assets (Objective 1):
 - to understand the entity's business (Objective 1a);
 - to assess the closeness to cash (Objective 1b.1);
 - to assess the current performance of the entity (Objective 1b.2);
- to assess the entity's financial structure (Objective 2):
 - to assess liquidity (Objective 2a);
 - to assess solvency (Objective 2b);

- to assess the entity’s ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities (Objective 3);
- to assess the ability of the entity to generate cash and cash equivalents (Objective 4);
- to compare entities using different accounting treatments for the same transactions (Objective 5);
- to assess management’s stewardship (Objective 6):
 - to assess management’s general performance (Objective 6a); and
 - to assess management’s cash management (Objective 6b).

The DP asked whether constituents agreed with these objectives or thought there should be additional objectives. The DP also asked whether some objectives of the statement of cash flows were more important than others.

Agreement with objectives

Eight comment letter respondents explicitly agreed with the objectives stated in the DP. Two comment letter respondents highlighted that the statement of cash flows was less important than the statement of financial performance but that it still did provide additional information.

Some respondents offered nuanced views on the objectives outlined in the DP, with differing opinions on their clarity, relevance and practical value.

One respondent noted that it was essential to ensure that the objectives were also relevant for financial entities.

Importance of the objectives

Seven comment letter respondents provided input on the relative importance of the objectives listed in the DP. The background of the respondents and the ranking of the objectives, where indicated, are summarised in the table below (H: high importance; M: medium importance; L: low importance).

Objective\Respondent	Ranking						
	NSS	NSS	NSS	NSS ²	Aca	Aca	Use
Objective 1 (changes in net assets)							
- Objective 1a (understanding business)	M						
- Objective 1b.1 (closeness to cash)	L		H	L		H	H ⁴
- Objective 1b.2 (current performance)							
Objective 2 (financial structure)							
- Objective 2a (liquidity)	H	H		L		H	L ⁵
- Objective 2b (solvency)	L						
Objective 3 (agility)	M			L			
Objective 4 (ability to generate cash and cash equivalents)	H	H	H	H		M ³	H ⁶
Objective 5 (compare entities using different GAAP)	M		H	H			
Objective 6 (assessing stewardship)		(H) ¹					
- Objective 6a (management performance)	M		H	H	H		
- Objective 6b (cash management)	M					H	

NSS: National Standard Setter.

Aca: Academic(s).

Use: Association of users.

1: The respondent noted that Objectives 2 and 4 are the most important, as they give insights into the conversion of the results from the income statement into the conversion of cash and cash equivalents and are therefore inherently part of Objective 6.

2: The ranking is made based on what the respondent learned from users. The respondent, however, noted that they did not support, in the form presented in the DP, the use of the objectives for weighing up the issues and possible solutions.

3: The respondent did not explicitly note that Objective 4 was of medium importance. They noted that the statement of cash flows supports the forecasting of capital expenditures, necessary for estimating free cash flows, and discloses dividend payments, which are essential for understanding the pay-out ratio and the return on investment through dividends. However, the historical EBITDA-like figure that the statement of cash flows provides is not the best input for projecting future cash flows. The statement of financial performance, particularly when expenses are presented by nature, is the most reliable tool for projecting future cash flows. The ranking provided in the table has been assigned based on these comments.

4: The respondent did not explicitly state that Objective 1 was of high importance but noted that the statement is used to provide a link to the statement of financial performance and to the statement of financial position, which the respondent noted was explained in the DP as belonging to Objective 1.

5: The respondent did not explicitly note that Objective 2 was of low importance but believed that most users of financial statements do not look at the statement of cash flows primarily to assess liquidity, financial structure or changes in this.

6: The respondent did not explicitly note that Objective 4 was of high importance but believed that most users use the statement of cash flows to complement the statement of financial performance in assessing the ability of a company to generate cash flows from its operations while being able to invest.

As it appears from the table, respondents providing views on the importance of the different objectives held differing views on the importance of Objectives 1, 2, 5 and 6. Those who explicitly provided an assessment of Objectives 5 and 6, however, generally considered these objectives as having at least some degree of importance. Particularly for Objective 5, this could be considered a bit surprising given that EFRAG, while preparing the DP, did not receive input whereby this objective should be important. Objective 3 (assessing agility) was not considered the most important objective. On the other hand, Objective 4 (assessing the ability of the entity to generate cash and cash equivalents) was generally considered important. The association of users referred to in the table above noted that the growing prevalence of fair value measurement and non-cash items within the statement of financial performance and the statement of financial position provided the statement of cash flows with a vital supplementary function. Another respondent (a National Standard Setter), however, noted that the usefulness of the statement of cash flow for this objective varied by business model and was particularly high during periods of financial distress. This respondent recommended further research into the causes of this context dependency before undertaking any significant revisions based on this objective.

As it appears from the table above, academics considered the stewardship objective important. One of these respondents noted that financial forecasts tend to follow an accrual logic, with cash flows derived secondarily from expected transactions and turnover assumptions (e.g. in working capital). The respondent considered historical cash flow information to be particularly useful for evaluating past decisions and accountability, such as investment strategies, working capital management or dividend policy. Consequently, the respondent argued that the cash flow statement is more relevant for stewardship and accountability than for predictive or resource allocation purposes. Similarly, another comment letter respondent and a preparer at an outreach event noted in relation to Objective 4 that the DP emphasised the forward-looking aspect, but the respondent thought it was important to stress current and past ability to understand and evaluate the entity's ability in the future.

In relation to the ranking, four comment letter respondents stressed that the objectives included in the DP were extensive and partially overlapping, which made it challenging to provide a specific ranking.

A financial institution, which did not provide any explicit view on the relative importance of the objectives listed in the DP, noted that several of the listed objectives, particularly those related to liquidity and solvency, may already be addressed through other primary financial statements. The respondent expressed concern in that this overlap was insufficiently acknowledged in the DP. Nonetheless, the respondent affirmed that the statement of cash flows provides distinct value, particularly in supplementing existing financial information to meet the needs of users more effectively. The user association referred to in the table above warned that redefining the primary role of the statement of cash flows to focus exclusively on liquidity or solvency could undermine its foundational purpose as a complement to the other financial statements. On the other hand, an auditor emphasised at an outreach event the importance of the statement of cash flows for assessing financial structure and cash management.

The incremental value of the statement of cash flows was questioned by a National Standard Setter, both in relation to information on the financial structure of an entity and in relation to the assessment of changes in net assets (including understanding the entity's business). This respondent noted that working capital already provides insight into future liquidity.

As shown in the table above, a National Standard Setter considered Objective 3 (assessing agility) to be of low importance. The respondent noted that this objective did not align with the fundamental role of the statement of cash flows, especially given the availability of financial tools such as factoring or reverse factoring. The respondent suggested that a more meaningful focus might be the evaluation of inefficiencies in capital allocation, such as maintaining excessive cash reserves.

Question 2 – Usages of the statement of cash flows

The DP explored how primary users employ the statement of cash flows and sought constituents' input on further potential applications.

No additional uses of the statement of cash flows were identified by constituents.

Three respondents explicitly noted that they had not identified any uses other than those listed in the DP.

Similar to the observation included in the DP, a user association indicated that the statement of cash flows is not typically used on a stand-alone basis. Instead, it is used to assess a company's ability to generate cash flows from its operations while continuing to invest – rather than to evaluate liquidity or financial structure.

A group of academics indicated that the identified forms of use were considered extensive, though it was observed that some of the stated benefits were more theoretical and not commonly applied in day-to-day practice, which highlighted the need to revise the standard.

Question 3 – Issues with the statement of cash flows for non-financial entities

The DP listed issues with how the statement of cash flows is prepared under IAS 7, which were brought to the attention of EFRAG. The DP linked the issues to the objectives of the statement of cash flows that were deduced in the DP (see Question 1 above). The DP asked whether respondents agreed with the issues listed, whether there were additional issues beyond those listed and how the various issues identified should be rated (low, medium or high priority). The DP noted that four of the issues identified (cash flows of an agent, excluding non-cash transactions from the statement, disaggregation of information and cohesiveness with other primary financial statements) could either be addressed by amending the requirements on the information to be displayed in the statement of cash flows or by introducing additional note disclosure requirements. The DP asked respondents how the issues that should be addressed would best be addressed (that is, whether they should be addressed by means of changes to the information presented in the statement of cash flows or through additional note disclosures).

Additional issues

One respondent considered that an issue in addition to those identified in the DP was that there is currently no definition of / guidance on what constitutes paid interest. No other respondent identified issues in addition to those listed in the DP. However, as noted below, one respondent considered that a discussion on the presentation of cash flows from discontinued operations was missing when discussing issues related to the presentation and categorisation of cash flows. An auditor at an outreach event similarly mentioned that there was diversity in practices surrounding the presentation of discontinued operations in the statement of cash flows.

Rating of issues

11 comment letter respondents provided input on the relative importance of the issues listed in the DP. The background and the ranking of the issues are summarised in the table below (H: high importance; M: medium importance; L: low importance).

Issue\Respondent	Ranking										
	NSS ¹	NSS ²	NSS	NSS ⁹	NSS ¹⁰	NSS ¹¹	Aca ³	Aca	Use ⁶	Use ⁷	PO ⁸
Definition of 'cash' and 'cash equivalents'	H	H	L	H	H	L		M/L ⁴	L	L	
Cash flows of an agent	M/H	L	H			L		M/L ⁴	L	H	
Non-cash transactions	H	H	M		H	L		H	L	H	
Classification of cash flows	L	L	H		H	L		M/L ⁴	L	L	H
Disclosure requirements	H	H	M	H	H	L	H	Va ⁵	H		H
Disaggregation of information	H	L	M			M		M	H	H	
Definition of measures	L					M					
Cohesiveness with other primary financial statements	H	L				L			H		
Presentation of cash flows from operating activities	L	L				L			L	L	

NSS: National Standard Setter. The first three National Standard Setters listed in the table correspond to the first three National Standard Setters listed in the table summarising the views on the importance of various objectives.

Aca: Academic(s). The first two academics listed in the table correspond to the first two academics listed in the table summarising the views on the importance of various objectives.

Use: Association of users. The first user listed in the table corresponds to the user listed in the table summarising the views on the importance of various objectives.

PO: Professional organisation.

1: The respondent did not explicitly rank all the issues. The respondent noted that some issues are of greater importance than others and then provided comments on those the respondent found to be of the highest importance. The respondent ranked some of these issues. In the table above, issues the respondent did not comment on are marked as low priority, while issues the respondent commented on are marked as high priority unless an explicit ranking was provided.

2: The respondent did not explicitly rank the issues but considered that three topics should be considered as targeted improvements. These three topics are marked as high priority in the table above, while topics the respondent did not comment on are marked as low priority issues.

3: The respondent did not provide a ranking of the issues listed in the DP but recommended that the statement of cash flows' ability to reflect stewardship by introducing enhanced disclosure requirements be considered. Disclosure requirements have accordingly been reflected as a high priority in the table above.

4: The respondent considered that some of the matters related to the issue were of low priority, while others were of medium priority. The respondent's priorities for the different matters are noted under the various issues in the text below.

5: The respondent considered that some of the matters related to the issue were of high priority, while others were of medium or low priority. The respondent's priorities for the different matters are noted under the various issues in the text below.

6: The respondent did not explicitly rank the issues. The ranking in the table is made based on the respondent's comment that improvements should be targeted around four major points: '1) improved disaggregation, in particular for cash flow from operations; 2) some additional information about the non-controlled interest component of some cash flows; 3) some additional information about the discontinued operations part of some cash flows, to offer a more consistent view with the income statement and balance sheet; and 4) there should be some additional disclosures provided in notes for some issues/items (non-cash significant items, reconciliation with net debt and net debt changes).'

7: The respondent did not explicitly rank the issues. The ranking in the table is made based on the respondent's comments: '... agrees with EFRAG's comment that the definitions of "cash" and "cash-equivalent" present room for interpretation. This is not, however, a major issue for users ...'; '... cash movements should be disclosed when third parties are involved ...'; 'Non-cash transactions such as leases and assets purchased and paid for by a company's own shares and economically similar to cash transactions should be included in the statement of cash flows, they are considered part of the "sources and uses" of funds. We think that moving this information from the notes to the statement of cash flows will permit a better understanding of the business and of an entity's capacity to generate additional cash'; 'We think that users by and large will maintain the current classification when presented with sufficient disaggregation and there is no need for any major overhauls of the statement of cash-flows structure'; '... improving the level of disaggregation, particularly for operating cash-flows, should be a key aspect in the revision of the statement of cash flows'; and 'the indirect method is the most widely used method by analysts and investors when analysing a company's cash flow presentation'.

8: The respondent did not explicitly rank the issues. The ranking in the table is based on the respondent mainly/only considering classification issues and additional disclosures.

9: The respondent did not explicitly rank the issues. The ranking in the table is based on the respondent's comments: 'we believe it would be important to clarify the IAS 7 definition of cash equivalents' and 'we believe that improved disclosure in the notes could significantly increase its utility'.

10: The respondent did not explicitly rank the issues. The ranking in the table is based on the respondent's comments: that the definition of cash equivalents is too restrictive, that the definition of financing activities would not result in a disinvestment being classified as financing activities, that the extinguishment of the debts of a subsidiary is a cash outflow from financing activities instead of investing activities, that the exclusion of non-cash transactions only resulting in cash outflows in the financing category may not produce relevant and comparable information for users, and that additional information on the assumptions underlying the preparation of the statement of cash flows could help users better understand the composition and classification of cash flows and would improve comparability between entities.

11: The respondent did not explicitly rank the issues. The ranking in the table is based on the respondent's comments: 'for the purpose of this project we support retaining the current definitions of cash and cash equivalents in IAS 7'; 'Inclusion of hypothetical cash flows or additional disclosures, for example as discussed in the context of non-cash transactions — are viewed critically, as the underlying principles of these statements differ significantly'; 'we are in favour of actual changes in cash and cash equivalents'; 'we therefore express some reservations about making further adjustments to the classification of cash flows'; '... does not support additional disclosure requirements related to the statement of cash flows'; '... recommend maintaining the current option in IAS 7.18'; 'we do not support efforts to increase alignment between the statement of cash flows and the statement of profit or loss'. On the definition of measures, the respondent received mixed input. The respondent supported a breakdown of dividends to controlling and non-controlling interests but was more sceptical / did not support segment information or disaggregation of items that adjust the period's profit or loss under the indirect method.

The responses summarised in the table, with the exception of one National Standard Setter, generally considered additional disclosures important. The respondents also agreed that the current option to depict cash flows from operating activities using a direct or indirect presentation did not result in major issues that would be important for the IASB to address. The users responding to the DP considered disaggregation of information important. For the remaining issues, differing views were expressed by respondents.

When comparing the responses on the importance of various objectives (see Question 1) with the responses on the ranking of issues, the responses indicate that there might be a correlation between considering the financial structure objective (particularly assessing liquidity) important and assessing the issues related to the definition of cash and cash equivalents as important.

The subsections below further describe the input received in relation to the various issues.

Definition of 'cash' and 'cash equivalents'

As shown in the table above, differing views were received from constituents on the importance of addressing the issues related to the definitions of 'cash' and 'cash equivalents'.

The two associations of users responding to EFRAG's DP did not find the issue important. One of them agreed with the DP that the current definitions leave room for interpretation. However, the association did not see this as a significant issue for users, since 'cash equivalents' are convertible to cash within three to six months, which aligns with the typical reporting periods of most European entities that aim to minimise their cash holdings as much as reasonably possible.

Two National Standard Setters also did not find the issue important. One of these noted that any ambiguity in the definitions does not have a major practical impact.

On the other hand, four National Standard Setters and a group of academics and participants at an outreach event expressed some concern with the current requirements. The concerns included the following.

- The requirements do not result in the most useful information. The standard is overly prescriptive in some areas and overly broad in others. One of the National Standard Setters pointed out that the definition of cash equivalents is too restrictive, excluding certain short-term investments that are readily convertible to cash despite exceeding a 90-day maturity. Similarly, another National Standard Setter noted that the use of long(er) term deposits for (excess) cash management purposes results in these cash flows being considered investment cash flows whereas they are in essence a treasury activity.
- The requirements are not clear. Terms such as ‘normally’ or ‘say’ introduce ambiguity. One National Standard Setter recommended that the concept of a short-term period be more precisely defined, for example, by setting it at a period of no more than three months. Another National Standard Setter further highlighted current differing interpretations of the ‘three-month’ criterion for cash equivalents, which some entities use to justify classifying longer-term instruments as cash equivalents. A group of academics considered it clear from the standard that the reference to three months does not constitute a strict rule, and this respondent considered this particular issue of low importance. This respondent acknowledged that there could be different assessments of ‘a negligible value change risk’. However, the respondent considered this to be a matter of accounting policy that should not be subject to additional regulation.
- There are differing views on how specific instruments should be considered. Differing views exist on how specific instruments such as escrow accounts and short-term maturities should be classified. This issue was identified by a National Standard Setter. An auditor at an outreach event noted that there was uncertainty in practice around items such as credit card receivables and cash in transit.
- The term ‘demand deposit’ is not defined in IAS 7. One National Standard Setter noted that this leads to inconsistent interpretations among companies. In light of developments in payment technology and different digital currencies, this respondent recommended the adoption of a robust, principle-based definition of cash, including guidance on what type of counterparty may offer such ‘demand deposit’ accounts.
- There are issues with cash in groups. In groups with a centralised treasury function, some subsidiaries’ individual accounts may show zero cash balances because payments are made by the parent company, and only intercompany balances are recorded. A group of academics considered this issue of medium priority to be addressed. At an outreach event, a call for clarification around cash-pooling transactions was similarly made by an auditor.

Although a National Standard Setter supported retaining the current definitions of cash and cash equivalents in IAS 7 for this project, it noted that whether cryptocurrencies should qualify as cash equivalents could be discussed. However, the respondents considered that the IASB should first assess whether and under what conditions cryptocurrencies could qualify as financial instruments, which would likely require a revision of the definition of financial instruments in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. Also, the discussion on cryptocurrencies and their potential classification as cash equivalents should be framed within the context of ongoing technological and macroeconomic developments. On cryptocurrencies, a group of academics assessed that the accounting for these would be addressed in the IASB's project on intangibles. The respondent noted that if these types qualify as 'cash equivalents', IAS 7 should be amended accordingly. The respondent considered this issue of medium importance. Also, at an outreach event an auditor considered the question relating to settlement using crypto assets important. Another auditor at the outreach event expressed scepticism about cryptocurrencies qualifying as cash due to valuation volatility.

On the issue of whether the statement of cash flows should only include 'cash', an association of users and a group of academics disagreed with only including 'cash'. One of the respondents noted that 'pure cash' would be close to zero. The other respondent considered that it would distance the definition from the broader concept of 'liquidity position', which better reflects how the entity manages its liquidity.

At an outreach event, a preparer proposed exploring a multiple-column cash flow presentation. The cash flow statement should include several columns for different types of cash and cash equivalents and non-cash items. The first column could reflect a narrow definition of cash, and the following columns could include additional types of flows/settlements such as cryptocurrencies and agent payments. An auditor at the outreach event supported the idea and noted it could also be useful for complex arrangements such as supplier financing.

Cash flows of an agent

As it appears from the table above, particularly two National Standard Setters, an association of users, and a group of academics raised concerns about the absence of clear guidance on whether/how to reflect the cash flows of an agent. A similar concern was expressed by a preparer and two auditors at an outreach event. The two National Standard Setters pointed out that it is common for entities to arrange for other parties to make payments on their behalf. One of these further noted that practice is unclear, particularly in cases where banks make payments or establish lease agreements on behalf of an entity, noting that in such cases these actions are often not considered payments made by an agent, which leads to inconsistent reporting. The respondent elaborated on concerns regarding supplier finance arrangements. The respondent noted that the reclassification of trade payables as financial debt in such arrangements can distort subtotals within operating cash flows and reduce comparability between entities. Although the respondent acknowledged that forthcoming disclosure requirements under IAS 7 and IFRS 7 *Financial Instruments: Disclosures* may assist users in adjusting to these effects, they suggested that alternative approaches should also be explored. One such approach could involve defining payments made by agents (e.g. finance institutions) as cash flows made on behalf of the entity, which would then be followed by a financing cash flow. A group of academics considered that there were two (other) possible solutions to the issue: 1) disclosing such transactions in the notes and 2) considering that payment flows are partly investment (principal) and partly financing (interest).

The association of users commenting on the issue emphasised that from a user's perspective, it is essential that relevant cash movements are faithfully and accurately reflected in the statement of cash flows. Therefore, the respondent believed that such movements should continue to be reported within the statement, noting that the third-party cash movement should be disclosed transparently.

On the other hand, another National Standard Setter outlined that the issue addresses a more fundamental one regarding what the statement of cash flows is meant to portray. This respondent was opposed to including cash flows from transactions of agents. The respondent warned that introducing hypothetical or inferred cash flows could distort the purpose of the statement and create significant complications. Further, the respondent emphasised that the core discussion was about the type of comparability that the cash flow statement is intended to provide – whether it should reflect the economic substance of a transaction, regardless of actual cash flow mechanics, or whether it should strictly present actual cash movements as defined by contractual arrangements. The respondent preferred the latter even if that would result in actual cash flows not aligning with accounting treatments in the statement of financial position and the statement of financial performance, as it would be the case under the lease accounting of IFRS 16 *Leases*.

While a group of academics considered the issues related to cash flows performed by an agent of the entity of medium importance to address, it did not consider issues on how cash flows related to an entity acting as an agent should be presented (e.g. VAT collection) important.

Non-cash transactions

As it appears from the table above, there were also split views on issues related to non-cash transactions. In addition to the views summarised in the table, a preparer at an outreach event supported prioritising the issue.

Views on the manner in which the issue should be addressed are summarised in relation to Question 4 below. A respondent who was in favour of providing disclosures about non-cash transactions (share-based payment, lease accounting, transactions with finance and/or deferred component(s)) emphasised that guidance should be provided on how those transactions should be disclosed.

In the table above, a National Standard Setter has been marked as considering the issue of non-cash transactions of low importance. This National Standard Setter was against including hypothetical cash flows or additional disclosures in relation to non-cash transactions, as the purpose of the statement of cash flows was different from the other primary financial statements, and striving for greater cohesiveness might reduce the value of the statement of cash flows. The respondent was also concerned that presenting hypothetical cash flows would raise numerous issues and fundamentally alter the nature of the statement.

Classification of cash flows

As reflected in the table above, there were differing views on the importance of dealing with issues related to the classification of cash flows.

One National Standard Setter and one user association had reservations with any potential reworking of the current classification structure. The association of users noted, for example, that it was not aware of any real, significant problem for users resulting from the absence of a positive definition of operating activities. The National Standard Setter emphasised that the primary focus of any revision should be on addressing existing information gaps. The respondent observed that much of the relevant information is already accessible across the statement of cash flows and other financial statements, albeit sometimes requiring users to consult multiple sources. As further explained below, the National Standard Setter, having reservations about making any changes, was also against aligning the statement of cash flows with the other primary financial statements and noted that classification alignment resulted in less relevant information.

Another constituent held the position that classification should support the informational needs of users. The respondent supported the existing IAS 7 distinction between operating cash flows and investing cash flows related to recognised long-term assets (e.g. property, plant and equipment), asserting that this division appropriately distinguishes cash generated from ongoing operations from cash used for future growth.

Two National Standard Setters, an association of users, a professional organisation, an academic and a group of academics supported some change to the classification requirements. The issues considered by respondents were the following.

- *Classification requirements around leasing (mentioned by a National Standard Setter).* One respondent identified this issue as one of the most pressing classification issues. While the respondent considered that the current presentation of leases needs improvement – particularly for lessees when reporting free cash flows – the respondent did not support reintroducing the distinction between operating and finance leases.
- *Collections of compensation of insured losses (mentioned by a group of academics).* A group of academics suggested that the classification should reflect the nature of the insured asset; if it is a capital good, the compensation received would be equivalent to the price obtained from its sale. The respondent considered this issue of low importance.
- *Government grant collections (mentioned by a group of academics).* A group of academics noted that the classification would depend on the nature of a government and would be either operating or financing. The respondent considered that this issue was of low importance.
- *Payments related to unrecognised intangible assets (mentioned by a professional organisation).* A professional organisation noted that investments in internally developed intangible assets – often not recognised on the balance sheet – are classified within operating activities, which undermines this principle. In the view of the respondent, such treatment makes it more difficult for users to separate current operational performance from investment in future capabilities, particularly in companies with high levels of intangible investment.

- *Sale of a minority interest (mentioned by a National Standard Setter).* A National Standard Setter noted that, in some cases, the definitions used in IAS 7 were too narrow. For example, if a parent entity sells some shares in a subsidiary, the definitions would normally lead to the cash inflows being classified under financing activity in the consolidated financial statements, whereas the respondent considered they should be presented under investing activity (as a disinvestment).
- *Extinguishment of debt of acquired subsidiary (mentioned by a National Standard Setter).* A National Standard Setter suggested that guidance could be clearer on how to classify cash outflows related to extinguishing the debts of an acquired business. The respondent noted that it could be considered relating to investing activities, as it was closely related to the business combination; however, under the descriptions included in IAS 7, the reduction of a bank loan is related to financing activities.
- *Acquisition of assets with deferred payment (mentioned by a group of academics and a professional organisation).* A respondent (professional organisation) was concerned that similar transactions are presented in different ways when they relate to investments with deferred payments. This respondent did not support recurring investments in assets being replaced with cash flows from financing activities. A group of academics recognised the issue but assessed the urgency of the issue to be low, as it has existed since 1992. The respondent considered two possible options: 1) solving the issue by means of presentation, which would mean reporting investment flows according to the transactions that have occurred (financed or not), within the same category of cash flows, including an adjustment for financing that reflects movements in accounts payable or financing related to capital goods; or 2) solving the issue by means of disclosure, which means that the current presentation would be maintained. That is, liability cancellations remain classified under financing cash flows but the notes include information about investments made through financing, as well as separate payments related to such financing from those involving the raising of liquid funds.
- *Collections received in a sale-leaseback (mentioned by a group of academics).* A group of academics assessed this issue as of medium importance. In the view of the respondent, the cash received should be reported as a financing inflow by the party retaining the control of the underlying asset.
- *Classification requirements related to reverse factoring (mentioned by two National Standard Setters and a group of academics).* One of these respondents identified this issue as one of the most pressing classification issues. Another respondent considered that when a balance sheet item changes its nature from an operating to a financial asset due to a new agreement (e.g. reverse factoring), the classification should reflect the item's original nature. This latter respondent also classified this issue as of medium importance.

- *Payments related to supply chain financing agreements (mentioned by a group of academics and two National Standard Setters).* A group of academics assessed this problem as similar to that of factoring agreements but with the particularity that all payment flows are classified as financing rather than operating activities. The respondent considered the issue of medium importance and assessed that, in order to avoid distortions, the transaction should be classified as an operating payment. Two National Standard Setters agreed that the cash flows should be included in the operating activity. One of them suggested that it might be necessary to introduce an exception to the main rule for the classification. Another possibility would be, according to the respondent, to define payments performed by an agent such that it captures payments to the vendors in such arrangements as cash flow paid on behalf of the entity.
- *Payments related to interests and dividends (mentioned by an academic, an association of users and a professional organisation).* An academic argued that financial and capital expenses should not be classified together within financing activities, given their differing economic characteristics. Specifically, interest on borrowings should be included within operating cash flows, while dividends should remain within financing. The inclusion of interests in operating activities was also favoured by an association of users. This respondent noted that the approach taken in IFRS 18 *Presentation and Disclosure in Financial Statements*, whereby interest is separated so that outflows are classified as financing activity and interest inflows as investments, was inconsistent with the concept of net debt. On the other hand, a professional organisation questioned the current inclusion of interest payments in operating cash flows, proposing instead that they be presented under financing activities. This respondent expected the implementation of IFRS 18 to bring greater clarity on this matter.
- *Payments for rehabilitation obligations (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that these payments should be classified as operating activities.
- *Changes in provisions related to defined benefit schemes (mentioned by one academic).* One respondent raised a specific issue concerning retirement provisions. Referring to the indirect method of presenting operating cash flows, the respondent noted that such provisions are typically added back to profit in the statement of cash flows. This could mean that if the provisions were suddenly dropped as a result of, for example, the entity laying off a large number of employees, operating cash flows could become negative. The respondent noted that in some economies, when an entity's operating cash flows are declining or negative, its stock is closed on the stock exchange. The respondent considered whether the provision could be considered a type of financing from the entity's employees. The respondent suggested that a solution to this issue should be considered when revising IAS 7.
- *Payments for deferred consideration in a business combination (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that these payments should be classified under investing activities.

- *Variable payments for the acquisition of an asset (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that these payments should be classified under investing activities at the time the contingent liabilities are satisfied.
- *Payments for obtaining a contract (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that these payments should be classified under operating activities when recognised as a contract asset under the category of working capital management.
- *Payments at the beginning of a lease (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that if the payments were capitalised, they should be included in investment activity or, otherwise, under operating activity.
- *Payments related to the purchase or sale of assets or liabilities held for trading (mentioned by a group of academics).* A group of academics considered this issue of low priority. The respondent suggested that the cash flows should be classified according to the category in which the assets and liabilities are recorded.
- *Payments related to income taxes (mentioned by an association of users and a group of academics).* One association of users supported taxes being included in operating activities but in separate subsections. On the other hand, a group of academics suggested a separate category for income tax cash flows to align that statement with the statement of financial performance.

Two respondents recommended aligning the presentation of continuing and discontinued operations with that of the other primary financial statements. One of the respondents argued that the current inconsistent presentation hinders users' ability to understand the relationship between the financial statements and cash flow information, often necessitating manual adjustments or the use of adjusted KPIs.

One association of users noted that, while differences in classification presented by entities in the statement of cash flows make the comparison difficult for investors, users will maintain the current classification when presented with sufficient disaggregation.

Disclosure requirements

A National Standard Setter indicated that no additional disclosure requirements were needed and did not support changes in this area. In contrast, 10 other respondents identified the following areas for improvement.

- There should be better disclosures of **what has been included in 'cash and cash equivalents'** (one association of users).
- The disclosures should include a detailed breakdown of **changes in working capital** (one National Standard Setter).

- Information about **seasonality** in working capital and **normalised levels** of working capital should be disclosed to provide users with additional clarity on net debt position and its cash flow impact (one professional organisation).
- A **reconciliation between working capital and movement in the statement of financial position**, including non-cash transactions if material, should be disclosed (one National Standard Setter). On the other hand, a group of academics did not consider that additional reconciliations should be required as they would result in regulatory overload.
- A **reconciliation between the statement of cash flows** and the statement of financial performance should be provided to help users define their own computation of free cash flow (one association of users).
- A **reconciliation of net debt** should be required (one association of users). The respondent acknowledged the absence of an IFRS definition of net debt but suggested that entities could adopt a clearly defined group-level basis, as is done under UK FRS 102.
- Significant **non-cash transactions** (such as share-based payments, new leases and related debt) should be disclosed in the notes (one association of users, one group of academics (who considered the disclosures of medium importance) and three National Standard Setters). Two of the respondents specifically noted that information on non-cash income should be disclosed in the notes instead of affecting the statement of cash flows (as noted above and below, EFRAG received differing views from users on whether non-cash transactions should be disclosed in the notes or included in the statement). A National Standard Setter did not support additional disclosure on non-cash transactions. This respondent assessed that the note disclosures required for non-cash transactions in IAS 7, paragraph 4, are adequate. This was also the view of an auditor at an outreach event who warned against unnecessarily expanding disclosure checklists. While a National Standard Setter did not consider that non-cash transactions should be included in the statement of cash flows, it noted that a ‘proforma’ statement of cash flows including non-cash transactions is best practice.
- **Restricted cash** should be disclosed (two National Standard Setters and two responses from academics). One respondent noted that, although restricted cash disclosures are covered under IFRS 7, they are often not observed in practice. Another respondent noted that the disclosure should include restrictions related to minority interests.
- Better **information on liquidity** and capacity to service debt should be included in the notes (one group of academics who considered the issue of high priority).
- The disclosures regarding investments funded through **lease contracts** should be made easier to understand and more consistent between preparers (one professional organisation).

- **Supplier finance arrangements** should be better explained (one professional organisation). At an outreach event, an auditor and a preparer considered that the explanation should include the rationale for its use.
- Better information on **debt repayment** should be included in the notes (one group of academics).
- Disclosures related to the **location and availability of cash within the group** and **intercompany cash movements** should be strengthened (two respondents representing academics). One of the academics added that, particularly, the intercompany cash movements reflecting treasury policy decisions should be disclosed. The respondent was, above all, focused on the relevance of the statement of cash flows for assessing management’s stewardship.
- The **impact of business combinations** on the statement of cash flows should be disclosed (one National Standard Setter and one group of academics who considered the issue of high priority).
- **Non-recurring/unusual items** should be explained in the notes (one National Standard Setter and an association of users). On the other hand, a group of academics did not consider that these should be disclosed.
- The information included in the note disclosures should be further disaggregated (one professional organisation). Particularly, **disaggregated information on cash used for investments in non-recognised intangible assets** should be provided. The respondent indicated that the IASB’s ongoing project on intangible assets might offer helpful guidance in this area.
- There should be clear **guidance on the disclosures related to interest paid** (whether outflows should be reported based on contractual terms or the effective interest method) (one National Standard Setter). One respondent noted that practice was not consistent, particularly under IFRS 16 for lease liabilities and other borrowings.
- The **assumptions and policies** underlying the preparation of the statement of cash flows should be better explained to enhance understandability and comparability (two National Standard Setters). It was similarly suggested that classification decisions should be explained (one group of academics who also considered the issue of high priority).
- The entity’s disclosure on **liquidity management practices (including non-cash arrangements or synthetic cash equivalents), capital allocation and treasury management** should be enhanced (one academic). The respondent argued that this would support the stewardship objective and improve comparability and reliability.

Two National Standard Setters stressed that disclosures should not be scattered across multiple notes, as this complicates usability; instead, they advocated for a mandatory, centralised note in the annual financial statements consolidating all relevant disclosures in one place. One of these National Standard Setters also suggested that any new disclosure requirements be integrated within specific standards, such as IFRS 3 *Business Combinations* or IFRS 7.

Another National Standard Setter highlighted timing concerns, noting feedback from analysts that IAS 7 disclosures while useful often come too late to be actionable since relevant transactions may have occurred over a year earlier. Despite concerns about overburdening interim reporting, the respondent suggested that any IAS 7 revisions consider targeted amendments to IAS 34 *Interim Financial Reporting*.

Disaggregation of information

Several constituents provided views on the presentation, disaggregation of cash flow information, particularly in light of IFRS 18 and IAS 7.

An association of users noted that, particularly in relation to the presentation of cash flows from operating activities, further disaggregation of information was necessary. The respondent noted that some entities simply presented 'net profit + depreciation and amortisation + other non-cash adjustments'. As a starting point, the respondent suggested the following elements be included in the presentation: 'Net profit + depreciations + amortisations + provisions + impairments – capital gains (losses) + other non-cash operating expenses (with significant details) + tax expenses + interest expenses – interest income + other financial expenses (with significant details) = cash from operations before changes in working capital interest and tax (a) – change from receivables – change from inventory + change from payables + other changes from working capital = change in working capital (b). (a) + (b) = cash from operations before interest and tax – interest paid (both on financial debt and operating) + interest received (both on financial debt and operating) – tax paid = cash from operating activities'. This respondent also suggested having a separate line for capitalised R&D under investing activity.

One National Standard Setter also highlighted that cash flow statements are sometimes too aggregated in interim reports and suggested clearer guidance. Two National Standard Setters, on the other hand, considered that IFRS 18 would offer sufficient guidance on how to present and disaggregate cash flows. One of these respondents was concerned about imposing mandatory disaggregation rules due to company-specific differences.

Differing views were expressed about a possible requirement to distinguish between investing activity cash outflows related to maintenance of the current business and those related to growth. One National Standard Setter and an association of users considered such a distinction difficult to implement in practice, noting that it would not result in reliable information and was thus unsuitable for targeted amendments. On the other hand, a group of academics noted that this distinction was missing from the current requirements. The group of academics favoured a separate presentation of growth investments. They noted that a clear definition of maintenance and growth CapEx are essential to enable this classification, though professional judgement will inevitably play a role. The respondent suggested establishing a presumption that unless something would qualify as a growth investment, it would by default be considered maintenance. The respondent considered this issue of medium priority.

Another National Standard Setter received mixed input on this issue. On the one hand, it was noted that the information could enhance transparency, as this information is often unavailable externally. On the other hand, the objectivity and usefulness of the information was questionable, and there would be practical challenges.

Two user representatives stressed the importance of disaggregating operating costs in the statement of financial position per nature to enable a meaningful linkage with the statement of cash flows. They argued that disaggregation by function prevents users from connecting key line items such as depreciation, amortisation and changes in working capital with operating costs. One of these respondents criticised IFRS 18 for removing compulsory per-nature disaggregation, seeing this as a significant flaw that disrupts the relationship between the income statement and the statement of cash flows. Both called for more specific disclosures, including dividends to controlling and non-controlling interests, as well as consistent disaggregation related to discontinued operations.

Three respondents (two National Standard Setters and a group of academics) considered that there should be a distinction between dividends paid to a parent shareholder and non-controlling interests. In addition, an association of users generally asked for additional information about the non-controlled interest component of some cash flows.

One academic suggested that 'cash profit' (net profit +/- non-cash items) should be shown as cash profit in the statement of cash flows. In this regard, the respondent also noted that not all non-cash items, such as depreciation, should be added back. For example, capitalised depreciations should not be added back.

It was noted above that some respondents considered that restrictions on cash should be disclosed in the notes. One academic suggested that the information should be disclosed as a separate figure in the statement of cash flows (for example, an amount that the entity was required to have on its bank account, which is not available to the entity).

One association of users considered that unusual items, in addition to being explained in the notes, should be highlighted by an increased disaggregation.

A group of academics suggested that segmented cash flow information should be provided. The respondent considered the issue of medium importance. However, a National Standard Setter expressed concerns and cautioned against the need to define segment KPIs.

A group of academics believed it would be beneficial to consider presenting separately those investment cash flows that generate stand-alone returns and those that do not. This would improve the alignment between the statement of cash flows and the statement of financial performance.

Definition of measures

As mentioned in relation to the table above, no respondent considered the definitions of measures a high priority.

A National Standard Setter received contrasting perspectives on the potential definition of a Free Cash Flow (FCF) measure. However, most of the input favoured an approach based on the reconciliation to the nearest relevant subtotal instead of defining a FCF measure. The respondent noted that it could be argued that the use of standardised definitions enables quick and easy comparisons between companies. However, during the development of IFRS 18, the definition of measures had shown to be problematic, and there would be practical difficulty in clearly defining key input components. With respect to measures such as working capital, net debt and the distinction between maintenance and growth capital expenditure, the usefulness of uniform definitions was questioned by the respondent. Such measures are heavily influenced by industry-specific practices and subjective judgements. Consequently, standardised metrics may not reflect the diverse information needs of stakeholders and could reduce transparency, hinder meaningful analysis and lead to misleading comparisons across companies with differing operational models and financial structures.

The two associations of users noted that users calculate FCF using their own definitions. One of these associations acknowledged that FCF is a key metric for users and confirmed that many calculate this measure themselves. However, the respondent noted that the existence of multiple definitions makes comparability difficult and that a certain level of disaggregation is required for investors to compute their own measure. From the respondent's perspective, FCF should be analysed in relation to the entity's total cash availability. At the same time, the respondent cautioned that developing a consistent and appropriate structure for defining such measures is challenging due to ongoing changes in related areas, such as working capital, net debt and capital investment expenditure. They considered that the introduction of IFRS 18 may provide a useful starting point for improving clarity in this area.

Cohesiveness with other primary financial statements

Respondents providing a view on the priority of cohesiveness were split.

One of the National Standard Setters considering the issue viewed cohesiveness with the other primary financial statements as a central issue, noting that it is interconnected with many other areas and should be addressed as a priority. The respondent, however, questioned whether such alignment would even be desirable. The respondent argued that the value of the statement of cash flows lies in its unique role – providing decision-useful information that differs from the accrual-based insights offered by other statements. Forcing the cash flow statement to align too closely with the statement of profit or loss could diminish its effectiveness by compromising its focus on actual cash movements. Instead, the respondent supported highlighting the difference between the statements by introducing a clear linguistic distinction between the terms ‘operating’, ‘investing’ and ‘financing’ as used in the statement of profit or loss and the statement of cash flows. An auditor at an outreach event similarly warned against trying to achieve cohesiveness considering the IASB’s previous attempts on this.

Contrary to the above National Standard Setter, two academic respondents and an auditor at an outreach event considered that the classification of cash flows could be enhanced by aligning it with the new categories introduced in IFRS 18 for the statement of financial performance. One of these particularly advocated for a closer alignment between the operating section of the statement of cash flows and the statement of profit or loss, viewing them as intrinsically linked. Emphasising the interconnected nature of financial information, the respondent urged the IASB to design standards that help users understand these relationships more clearly. In the view of the respondent, the operating cash flows should reflect the cash component of the operating expenses reported in the statement of profit or loss. The other academic noted that the accounting recognition of a resource in the statement of financial position or the statement of financial performance should determine the classification of related cash flows, as this would improve the understandability of information.

Between these different views, another National Standard Setter suggested that the definitions be revised or replaced to prevent misunderstandings if the categories were not updated to reflect the revised structure of the statement of financial performance under IFRS 18.

An association of users favoured a link between the statement of financial performance and the statement of cash flows but was against classifying cash outflows for property, plant and equipment as operating activities. The respondent noted that this would also result in the investment section being almost empty.

Presentation of cash flows from operating activities

Several stakeholders expressed views on the use of the indirect versus direct method in presenting cash flows from operating activities. The stakeholders suggested that the indirect method should be retained due to its analytical value and operational practicality.

Two user associations opposed the idea of only allowing the direct method, noting that this method is not widely used in practice. They also criticised the DP's emphasis on the granularity potentially offered by the direct method. Furthermore, they argued that combining the direct method with a presentation of expenses by function makes reconciliation with the income statement impossible. One of the associations emphasised that the indirect method enables a direct connection with the income statement, which facilitates analysis. In contrast, entities using the direct method often provide less disaggregated information, hindering investors' ability to assess the company's capacity to generate cash to meet its obligations. The respondent stressed the importance of including disaggregation of items, such as changes in working capital, under cash flows from operations. Further, the respondent expressed a strong preference for presenting operating costs by nature rather than by function. The respondent argued that the 'by-nature' approach typically yields a higher degree of disaggregation, whereas the cost of sales under a 'by-function' presentation often absorbs the majority of operating expenses, limiting transparency. User respondents noted that analysts' reliance on pro-forma EBITDA illustrates their preference for reporting by nature. This approach is also seen as more predictive, as items such as personnel costs or depreciation can be linked to balance sheet indicators such as property, plant and equipment. Moreover, the respondent pointed out that the 'by-function' format introduces more subjectivity, for example, in the classification of marketing costs. A presentation by nature, in their view, enables more meaningful comparisons across the income statement, balance sheet and the statement of cash flows, thereby enhancing performance analysis and comparability.

A National Standard Setter pointed out that the adoption of the direct method would entail, in particular for banks and insurance companies, higher implementation costs, while the added informational value of such a change remains uncertain. The respondent agreed with the DP (paragraph 3.79) in that the indirect method appears to be the preferred approach among many users in Europe, whereas the direct method is more commonly favoured in the United States (paragraph 3.70). Given these differing preferences between users, the respondent did not see any compelling justification for mandating a single method of presentation. The respondent opposed the additional disclosures suggested in the DP in relation to the use of the indirect method. It was noted that allowing the continued use of the indirect method while simultaneously requiring additional disclosures aligned with the direct method would not reduce the implementation burden for preparers.

A group of academics highlighted that the indirect method is particularly valuable for forecasting purposes, as it allows for a clear distinction between cash flows arising from underlying transactions and those related to working capital management. In contrast, investment cash flows are typically presented using the direct method, which does not allow for a similar differentiation between transactional and deferred (i.e. financing) payments. Under current practice, deferred acquisitions are classified as financing cash flows, whereas deferred payments for inventory remain within operating activities as part of working capital changes, revealing inconsistencies in classification and interpretation. The suggestion to also apply the indirect approach for investing activities was also mentioned by a National Standard Setter (see further in the following section on Question 4 – Non-cash transactions).

Another constituent also underlined the importance of preserving the indirect method. The constituent stated that any removal of categories from the statement of cash flows would require careful consideration regarding how inflows and outflows are aggregated to ensure consistency and comparability. At the same time, such a structural change should not compromise the operational efficiency of the indirect method, which remains the most practical and widely used approach for many entities.

Question 4 – Non-cash transactions

The DP considered two types of non-cash transactions:

- transactions in which no cash or cash equivalents are involved, such as the acquisition of property, plant and equipment by means of own share;
- multiple component transactions that involve cash or cash equivalents but which result in cash flows to and from an entity being reduced compared to a situation where the various components have not been bundled.

The DP asked whether some non-cash transactions should be presented in the statement of cash flows or whether additional disclosures should instead be provided about these transactions.

Respondents expressed different views on these questions.

The two associations of users responding to the DP requested more information about non-cash items. One of these respondents argued that, although such transactions do not involve immediate cash outflows, they are often economically equivalent to cash movements. The users, however, held differing views on how the information should be provided. One of the associations supported including significant non-cash transactions directly in the statement of cash flows (e.g. leases and share-based acquisitions). The respondent argued that this would give users a clearer picture of an entity's funding activities and cash-generating capacity. The respondent noted that while these transactions do not involve immediate cash flows, many – such as leases or asset acquisitions paid in shares – are economically equivalent to cash movements. Including them directly in the statement rather than relegating them to the notes would offer users a more complete view of a company's financing activities and its potential to generate future cash flows.

The other association of users, on the other hand, opposed including these items in the cash flow statement itself and recommended instead disclosing them in the notes to preserve the clarity and function of the primary statement.

Four National Standard Setters, a group of academics and a financial institution were against reflecting non-cash transactions in the statement of cash flows. A similar view was expressed by three auditors at an outreach event. Three National Standard Setters stated that such transactions should not appear within the statement itself, recommending instead that additional information be provided in the notes to better reflect their nature and to improve clarity.

One National Standard Setter distinguished between non-cash transactions (e.g. payment by transferring a non-cash asset) and multiple component transactions. The respondent was against including the former in the statement of cash flows. Regarding the second type, it observed different practices and recommended further guidance on this. This respondent also emphasised that the information should be available in one designated note. At an outreach event, an auditor similarly proposed ‘grossing up’ the cash flows under a supply chain financing arrangement to maintain visibility of operating cash outflows that shift to financing.

A group of academics and a National Standard Setter suggested that non-cash transactions related to investing activities could be made visible by also applying an indirect method for showing cash flows related to investing activities.

Arguments for not including non-cash transactions in the statement of cash flows included that:

- non-cash transactions do not directly impact liquidity;
- relevant information is already addressed in other parts of the financial statements;
- it would fundamentally alter the purpose of the statement;
- it would result in the artificial grossing-up of cash flows that did not actually occur;
- it would not provide a faithful representation.

Although not considering the information to be presented in the statement of cash flows, one of the six respondents considered it important to understand whether an entity is able to avoid the use of cash in its investments or in the repayment of financing. Therefore, the respondent considered that the statement of cash flows model could be adapted to ensure that all flows arising from a single transaction are classified within the same category.

A standard setter raised concerns about emerging asset types such as cryptocurrencies, which – despite often being highly liquid – do not qualify as cash equivalents under IAS 7 due to their volatility. The respondent highlighted the inconsistency in classifying volatile national currencies as cash while excluding cryptocurrencies. As cryptocurrencies are not considered financial instruments under IAS 32 and are instead accounted for as intangible assets or inventory depending on their usage, the respondent argued that their inclusion as cash equivalents would require a prior reconsideration of the definitions in IAS 32. The respondent also underscored the need to account for broader technological and macroeconomic developments when evaluating the evolving concept of ‘cash and cash equivalents’ in financial reporting.

Question 5 – Alternatives to the statement of cash flows for non-financial entities

The DP presented a statement of net debt as an alternative to the statement of cash flows. The DP asked whether the statement of cash flows should be replaced by a statement of net debt.

Respondents generally did not support replacing the statement of cash flows with the alternatives proposed in the DP. In addition, two auditors at an outreach event opposed replacing the statement of cash flows with a net debt reconciliation. One of the auditors argued that a net-debt reconciliation is only relevant for debt-financed companies.

Four respondents argued that the statement of cash flows is not fundamentally flawed. It was emphasised that replacing it would add confusion and cost without significant benefits.

One of the respondents opposing the replacement of the statement of cash flows, however, acknowledged the value of the disclosure of certain metrics such as net debt.

A group of academics noted that while net debt reconciliations are helpful and commonly used in financial analyses, they should remain part of disclosures on capital management – not as a substitute for the statement of cash flows. The respondent also highlighted the ongoing lack of consensus on including lease liabilities in net debt. Similarly, an association of users considered the statement of cash flows a complement to the statement of financial performance rather than to the statement of financial position. This respondent also recalled that users are generally comfortable with the current framework when supported by adequate information.

A professional organisation questioned the viability of the alternatives to the statement of cash flows, noting that research into changes in assets appears less useful to capital providers.

One standard setter suggested that while alternative statements could be useful, their application should remain voluntary.

Another National Standard Setter acknowledged that the disclosure on net debt is important for users but preferred maintaining the current statement of cash flows.

Question 6 – The statement of cash flows for financial institutions

The DP noted that EFRAG had issued a discussion paper in 2015 on the issues related to the statement of cash flows for financial institutions. The 2015 Discussion Paper also consulted on whether the statement of cash flows should be replaced by other requirements or whether it should be improved. All respondents to the 2015 Discussion Paper expressed concerns about the relevance of the statement of cash flows for financial institutions, particularly for banks and insurance companies, due to the particular nature of their business activities. The DP asked whether anything had changed since 2015 that would justify further examination of the relevance of the statement of cash flows for financial institutions.

Overall usefulness and relevance of the statement of cash flows for financial institutions

9 out of the 11 respondents who answered the question affirmed that the statement of cash flow is not relevant or is of limited use for financial institutions. Five of them considered the 2015 findings from the consultation valid and further agreed with the analysis provided in the DP, pointing out that the statement of cash flows remains a limited useful tool for analysis as it does not provide useful insights into performance, liquidity,

solvency or dividends for banks and insurers. Similarly, participants at an outreach event did not indicate that there should be changes to the conclusions included in the 2015 Discussion Paper.

Two respondents disagreed with the arguments supporting the statement of cash flows for financial institutions included in the DP (paragraphs 5.9–5.12 of the DP), specifically the argument related to dividend assessment. The argument that the statement of cash flows was necessary to get information on dividends was not understood given that the information is readily available in other sections of financial statements and that the capacity for payout can be assessed based on performance and capital disclosure.

Nature of business and classification difficulties

Three respondents explicitly agreed with EFRAG's position, pointing out that the limited usefulness of the statement of cash flows is fundamentally linked to the nature of financial institutions' business model.

One respondent specifically mentioned that for financial institutions 'cash' constitutes the core business, making the cash flow inherently difficult and limiting the statement's usefulness. For this reason, this respondent supported the removal of the requirements for banks to provide a statement of cash flows.

Two respondents highlighted a crucial distinction: while negative cash flow is typically viewed unfavourably / as a red flag, for banks it signifies the generation of interest income. This makes it clear that for banks the cash flow amount is unrelated to good performance; therefore, negative cash flow should not be considered a 'red flag'.

Availability of alternative information and redundancy

Five respondents stressed that financial institutions already provide extensive and sufficient information through diverse disclosures, thereby rendering the statement of cash flows largely redundant. Four respondents further emphasised that analysts and other users rarely request or rely on the statement of cash flows for financial institutions. In addition, five respondents specifically mentioned Pillar 3 disclosures as providing ample information on the business.

One respondent cited IFRS 7 and IFRS 3 as sources of extensive existing information. Furthermore, one respondent underscored that IFRS 7 and other existing requirements already mandate disclosures on liquidity, liquidity risk, breakdowns of assets and liabilities, and other financial commitments. Another respondent mentioned that for insurance contracts IFRS 17 *Insurance Contracts* also includes extensive disclosure requirements that provide users with information (including sensitivity analysis).

Two respondents further specified that no alternatives to the statement of cash flows should be introduced. One respondent noted that it would be just as difficult to specify/scope which entities would be covered by the alternative disclosure requirements as removing the requirements to present a statement of cash flows for financial institution. Another respondent stated that a comprehensive review was needed for financial institutions to provide robust information on liquidity and solvency for financial institutions.

One respondent noted that it presented one of the regulatory ratios for liquidity suggested in the DP (LCR) in its financial statements and that this ratio shows how resilient a bank is in covering short-term obligations in a sudden market disruption situation (that is, in a stress-testing scenario). However, the respondent agreed with the issues identified for providing regulatory ratios in the DP (this assessment was also supported by another respondent) and assessed that IFRS 7 provides sufficient disclosure requirements for preparing useful information on liquidity. This respondent also considered information on highly liquid assets to be useful but noted that something similar is already addressed in IFRS 7.B 1E, which requires disclosure of maturity analysis of financial assets held for managing liquidity risk. In relation to information on maturities, the respondent provided liquidity gap disclosures showing whether there is an excess of assets or liabilities in specific time buckets. However, the respondent noted that IFRS 7, IAS 1 *Presentation of Financial Statements* / IFRS 18 also require information for maturity analysis of financial liabilities. Regarding information on encumbered assets, the respondent considered the disclosures on financial assets pledged as collateral, as required by IFRS 7.17, to be sufficient. For information about dividend payout capacity, the respondent provided disclosures involving forward-looking information and went beyond the capital disclosures of IFRS 18.126-129. The respondent considered that most information for capital flows could be derived from the statement of changes in equity and other disclosures. Similarly, information about the collection and uses of cash resources could be derived from the statement of financial position and related breakdowns of the line items in the notes, which serve the purposes of showing the sources of funding and their uses. The respondent did not see any added value in information on cash flows related to interests and loan originations and repayments.

One respondent explicitly noted that removing the categories in IAS 7 for financial institutions would not bring much improvement. However, two other respondents supported this removal. One of these respondents considered that it would simplify the creation process, leading to a more streamlined approach, avoiding unnecessary complexity. In addition, it could prevent misunderstandings caused by applying the categorisation by financial entities. The other respondent supporting the removal added that the existing category distinction within the statement of cash flows is not relevant for banks due to their unique business structure.

One respondent considered that, before assessing potential alternatives to the statement of cash flows, investors' and analysts' specific uses and objectives of the statement of cash flows from banks should be investigated.

One respondent indicated that alternative disclosures to the statement of cash flows would provide no added value.

Support for removing/eliminating the requirement for financial institutions:

Taking into consideration their concerns on the overall usefulness of the statement of cash flows, four respondents expressed support for removing or eliminating the requirement to prepare a statement of cash flows mainly for banks. One respondent had a less active stance, expressing no opposition against eliminating the requirement for preparing the statement of cash flows.

One respondent noted the difficulties associated with exempting financial institutions from the obligation to prepare the statement of cash flows and advocated for preserving the existing requirements. However, it should also be ensured that any potential costs of implementing changes could outweigh the benefits for financial entities. Similarly, another respondent, although expressing concerns on the usefulness of the statement of cash flows for financial institutions, recognised the challenges associated with exempting some financial institutions from the requirement to prepare the statement of cash flows, indicating that such a position might not receive broad support.

One respondent noted that a comprehensive review was needed to address the current shortcomings of IAS 7 for financial institutions.

Two respondents indicated that a principle-based solution would be sufficient and would not require any distinct alternative disclosures. These respondents suggested that if an appropriate principle-based framework is adopted, the existing challenges would be addressed without needing separate alternative statements. The suggested principle-based solution was to explicitly state that the materiality concept also applies to the presentation of individual primary financial statements.

Question 7 – Targeted improvements or a comprehensive review?

The DP listed the advantages and disadvantages of dealing with (some of) the issues with how the statement of cash flows is currently prepared under IAS 7 by targeted improvements, a comprehensive review or a phased approach, respectively. The DP asked for views on which approach would be preferred and whether, if the IASB should make targeted improvements, which issues should / should not be addressed.

Targeted improvements or a comprehensive review?

11 respondents presented their views on whether target improvements or a comprehensive review of IAS 7 should be carried out. Nine of the respondents favoured a targeted improvement approach rather than a comprehensive review. Support for targeted improvements was also expressed by two auditors at an outreach event. Three respondents considered that the standard works reasonably well in practice and provides users with relevant information, suggesting a targeted review for non-financial institutions. For financial institutions, one respondent supported targeted improvements, stressing that modifications should only be considered if there is compelling evidence that users lack pertinent information and if such improvements offer significant value and a favourable cost-benefit ratio. Other respondents noted that the statement of cash flows is not fundamentally flawed and that most users are comfortable with the current framework when supported with sufficient information.

While the prevailing view favoured targeted changes, two respondents (a group of academics and a National Standard Setter) advocated for a comprehensive review given the scope of issues to be addressed. The National Standard Setter stated that the project could be undertaken in various ways but was mostly supportive of a more comprehensive review.

In addition, one respondent favoured targeted improvements for corporates but a more comprehensive review for financial institutions.

Specific areas for targeted improvements

Aligned with the mixed responses on the importance of the various issues related to how the statement of cash flows is currently prepared, there were also mixed views on issues that targeted improvements should address.

The improvements suggested were:

- to evaluate the definition of cash and cash equivalents in order to address concerns raised by various stakeholders (one National Standard Setter);
- to specify how centralised treasury operations affect the preparation of the statement of cash flows (one group of academics);
- to align with the statement of financial performance (e.g. to split investment cash flows between those related to assets that generate returns independently) (one group of academics);
- to require the indirect presentation of cash flows from investing activities to show the effects of financing adjustments separately from the cash impact of the transactions (one group of academics);
- to require income taxes to be presented separately (one group of academics);
- to require that both inflows and outflows associated with a single balance sheet item be reported within the same cash flow activity (one group of academics);
- to improve disaggregation (one association of users and a group of academics); the following were mentioned:
 - in particular, further disaggregation of cash flow from operating activities (one association of users);
 - additional information about the non-controlled interest component of some cash flows (one association of users and a group of academics);
 - additional information about the discontinued operation part of some cash flows (one association of users);
 - disaggregating maintenance CapEx from growth CapEx (one group of academics);
- to improve disclosure requirements (one association of users, one National Standard Setter and a group of academics); in that regard, the following information was requested:
 - significant non-cash items (three respondents);

- reconciliations (two respondents). Reconciliations with net debt and net debt changes were mentioned by one respondent. Another respondent mentioned reconciliation of changes in working capital and the movements in the statement of financial position;
- impact of business combinations (one respondent);
- restricted cash (one respondent);
- minimum and excess cash balances (one respondent).

One responded noted that the relevant disclosures should be included in a single note.

Other comments

An association highlighted that, similar to the DP, when dealing with the issue it was important for the IASB to consider how the statement of cash flows is being used by users.

A professional organisation highlighted that there should be stricter requirements for the statement of cash flows in interim reports to increase its usefulness to capital providers.

APPENDIX – List of Respondents

<i>Respondent</i>	<i>Country</i>	<i>Type</i>
OBEID	France	Academic
SAYYADI	Iran	Academic
SFAF	France	User Association
FAR	Sweden	Professional Organisation
WSBI-ESBG	Europe	Preparer Organisation
ICAC	Spain	National Standard Setter
EFFAS	Europe	User Association
SCRB	Sweden	National Standard Setter
ERSTE GROUP	Austria	Preparer
UNIVERSIDAD LOYAL ANDALOUCIA	Spain	Academics
FBF	France	Preparer Organisation
NASB	Norway	National Standard Setter
ALLIANZ	Germany	Preparer
OIC	Italy	National Standard Setter
DASB	Netherlands	National Standard Setter
DRSC	Germany	National Standard Setter

In addition to the comment letters, EFRAG received input at outreach events.



EFRAG is co-funded by the European Union through the single Market Programme in which the EAA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are, however, those of EFRAG only and do not necessarily reflect those of the European Union, the European Commission nor countries participating in the Single market Programme. Neither the European Union, the European Commission nor countries participating in the Single market Programme can be held responsible for them.