IASB Research Forum 2025



Standard Setter Discussion of "How Does Reporting Complexity Affect the Decision Usefulness of Cash Flow Information"

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The views expressed in this presentation are those of the presenter.

Official positions of the FASB are reached only after extensive due process and deliberations







Relevant? YES!

Timely

- IASB Work Plan: <u>Statement of Cash Flows and Related Matters</u>
- FASB Technical Agenda: <u>Statement of Cash Flows Targeted Improvements</u>
- FASB Chair Research Agenda: <u>Statement of Cash Flows</u>

Addresses an important problem in practice

- Investor feedback to the IASB's third agenda consultation and the FASB's agenda consultations in 2016, 2021, and 2025.
- EFRAG Discussion Paper "The Statement of Cash Flows—Objectives, Usages and Issues."
- Past-SEC Chief Accountant, Paul Munter's statement "The Statement of Cash Flows-Improving the Quality of Cash Flow Information Provided to Investors."

Provides evidence pertaining to analysts and the market



May I have some more disaggregation, please!



CON8, Chapter 7, Presentation, PR39 "...creating line items that include classes of items that are as nearly homogeneous as possible is a critical aspect of presentation. Homogeneity enhances the ability to faithfully represent a line item."

Other Statement of Cash Flow Improvements

Greater comparability

More economically meaningful subtotals

Improved articulation of net income and free cash flow



Comparability

With definitions like these...



With Definitions Like These....

When SFAS 95 was issued:

Some view principal payments on seller-financed mortgages of productive assets as investing cash flows; others view them as financing cash flows.

Operating Activities

Generally, involve producing and delivering goods and providing services. (Also, all transactions and other events that are not defined as investing or financing activities.)

InvestingActivities

Making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment (other than inventory).

Financing Activities

Obtaining resources from owners and providing them with a return on, and a return of, investment; obtaining and paying for other resources obtained from creditors on long-term credit.

In recent outreach with banks:

Some view
customer bank
deposits as
operating cash
flows; others view
them as financing
cash flows.



Economically Meaningful Subtotals

Economic meaning? Meet the objective.



Economically Meaningful Subtotals?—Meet the Objective

Balance Shee

Information about:

- Economic resources
- Claims against economic resource

Statement of Net

Information about:

• Success or failure of economic effort expended in producing income

Statement of Cash Flo

Information about:

A. Rollforward of cash?

OR

B. Cash-basis income and non-income cash flows?

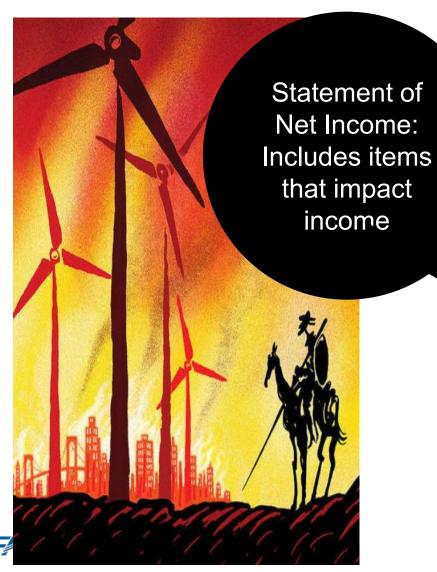


Improved Articulation

The impossible dream?



Articulation—The Impossible Dream?



Statement of Cash Flow

Operating activities:

- Includes items that impact income
- Excludes items that impact income (e.g., financed with equity or classified as investing or financing)

Investing activities:

- Includes items that impact income
- Includes items that do not impact income

Financing activities:

- · Includes items that impact income
- Includes items that do not impact income

Stock-based Compensation

Statement of Net Income

Statement of Cash Flow

Stock-based Compensation Expense Included in Net Income Stock-based
Compensation
Expense Excluded
from Operating and
Investing Cash Flow

Lifetime
Cumulative
Accrualbasis Income

Lifetime
Cumulative
Free Cash
Flow*

Expenses financed with equity are ignored.



^{*}Free cash flow defined as operating +/- investing cash flow.

Finance Leases

Statement of Net Income

Depreciation
Expense Included
in Net Income

Statement of Cash Flow

Principal Payments
Excluded from
Operating and
Investing Cash
Flow

Lifetime
Cumulative
Accrualbasis Income



Lifetime Cumulative Free Cash Flow

Repayments of finance lease principle classified as financing cash outflows.



^{*}Free cash flow defined as operating +/- investing cash flow.



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