Project	**Financial Statement Presentation**
Topic	**Statement of Cash Flows**

Introduction

1. At the working group meeting, the staff would like to discuss the boards' tentative decision related to the statement of cash flows (SCF). Those decisions are summarized below along with an issue the boards will address at their joint meeting on February 16, 2010.

Using a direct method to present cash flow information

2. In October 2009, the boards affirmed the proposal in the discussion paper that an entity should use the direct method to present cash flows in its SCF. This would be a significant change to current practice because most entities currently present operating cash flows indirectly in the SCF. The boards made the following clarifications or modifications to the proposal in the discussion paper (refer to Chapter 7 in the staff draft):

   (a) The cash flow line items on the SCF do not need to align with the line items on the SCI.

   (b) The statement of cash flows would present similar cash flows when the nature of the cash flow and timing of the payment in relation to its recognition in profit and loss is relevant to an understanding of the reporting entity's change in cash for the reporting period. This judgement would be based on the nature of the expense to which the cash flow is related and the extent to which the timing of the cash flow differs from the recognition of the expense. Furthermore, the cash flow statement would disaggregate cash flows for the purchase or sale of assets based on the nature of those assets and the issuance or settlement of a liability based on the nature of that liability.

   (c) The direct method SCF can be prepared by tracking actual cash flows in and out of the entity (the direct-direct method) or by reconciling changes in assets or liabilities for the associated revenue or expense items and further adjusting for the effects of other transactions which effect these balances to arrive at what the cash flow would be (the indirect–direct method).

(d) The indirect reconciliation will be required to be disclosed.

3. The main reasons the boards tentatively decided to retain direct method are that this method:

(a) Improves the understandability of cash flow information to a broad range of users

(b) Has better predictive value

(c) Increases transparency to the quality of earnings and cash generation

(d) Enables the user to develop trends not currently available under the current reporting model.

Additional feedback

4. Initial conversations with preparers indicated that a direct method SCF that does not require disaggregation by function would be significantly less costly to prepare than the direct-method SCF proposed in the discussion paper. We continue to talk with preparers about preparation of a direct-method SCF as described in paragraph 2. Preparers are still concerned about the preparation costs because their systems and operations are very decentralized and diverse.

Direct method for financial services entities?

5. In January 2010, the boards discussed whether financial services entities should be required to use the direct method. Respondents to the discussion paper note that the SCF as presented today is not used by analysts as part of their modelling. Further, the staff noted the presenting a direct method SCF would not necessarily be useful because it may not capture cash flows that occur between a bank and its depository accounts, such as loan payments and collection of fees (because a cash has not flowed in or out of the entity). However, the staff has done some outreach and noted that users see some potential value in understanding the cash flows which, during the year, contributed to or took away from a bank's liquidity, including cash receipts and payments on loan principle.

6. In February the boards will address the following staff recommendations:

   (a) A financial services entity should be required to present a direct method SCF.

   (b) In preparing a direct method SCF, an entity with funds held on deposit should present cash inflows and outflows so that the SCF reflects transactions between the entity and its depositors as if they were settled by external funds.

   (c) The guidance in IFRSs and US GAAP about the types of cash flows that may be reported *net* should be included in the exposure draft without the specific exception for loans made to customers and principal collections of loans.

Discussion questions—direct method SCF
1. Are the paragraphs in the staff draft regarding preparation of the SCF clear and operational?
2. Will a direct method SCF as described herein provide more decision-useful information to investors, creditors, and other providers of capital than the SCF most entities prepare today?
3. Will a direct method SCF that includes cash flows between external parties as well as cash flows with depository accounts provide decision-useful information?