

## STAFF PAPER

January 2014

## IFRS Interpretations Committee Meeting

Project	New items for initial consideration
Paper topic	<b>IAS 34 <i>Interim Financial Reporting</i>—condensed statement of cash flows</b>
CONTACT	Denise Durant                      ddurant@ifrs.org                      +44 (0)20 7246 6469

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. In October 2013, the IFRS Interpretations Committee (‘the Interpretations Committee’) received a request from the European Securities and Markets Authority (ESMA) (‘the submitter’) that seeks clarification on the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 *Interim Financial Reporting*.
2. We performed outreach with the International Forum of Accounting Standard-Setters (IFASS) and securities regulators on this topic in order to find out how widespread the issue raised by the submitter is and to what extent significant diversity in practice exists. The results of this outreach are included as part of our analysis of this issue.
3. The submission is reproduced in full in **Appendix C** to this paper.

## Purpose of the paper

4. The purpose of this paper is to:

- (a) provide an analysis of the issues raised in the submission;
- (b) provide a summary of the outreach results on the issue raised;
- (c) present an assessment of the issue against the Interpretations Committee’s agenda criteria (refer to **Appendix B**);
- (d) make a recommendation to amend paragraph 10 of IAS 34 (refer to **Appendix A**) for the consideration of the Interpretations Committee members; and
- (e) ask the Interpretations Committee whether it agrees with the staff recommendation.

### **Submission received**

5. The submitter observes that there are divergent views on the application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows in the interim financial statements (hereinafter refer to as ‘condensed statement of cash flows’).
6. The submitter refers in particular to the guidance in paragraph 10 of IAS 34, which states that (emphasis added):
 

If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements **shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes** as required by this Standard. **Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.**
7. On the application of the IAS 34 requirements regarding presentation and content of the condensed statement of cash flows, the submitter has identified the following views:

- (a) **View 1**—an entity should present a detailed structure of the condensed statement of cash flows showing cash flows by nature; or
  - (b) **View 2**—an entity should present a three-line condensed statement of cash flows that shows only a total for each of the operating, investing and financing cash flow activities.
8. These views are explained below.

***View 1—present a detailed structure of the condensed statement of cash flows***

9. This view recognises that in accordance with paragraph 10 of IAS 34 the condensed statement of cash flows should include, as a minimum, the headings and subtotals of the entity's most recent annual statement of cash flows.
10. Proponents of this view observe that the requirements in paragraph 10 of IAS 34 should *not* be interpreted to mean that an entity should only present a three-line condensed statement of cash flows showing totals for each of the entity's operating, investing and financing cash flow activities. Instead, proponents of this view think that at an entity should include additional line items to avoid the condensed statement of cash flows from being misleading.
11. Proponents of this view further observe that View 1 is consistent with the general principles in IAS 1 *Presentation of Financial Statements* for preparing annual financial statements that are equally applicable to condensed interim financial statements in accordance with paragraph 4 of IAS 1. These principles include fair presentation, going concern, the accrual basis of accounting, materiality, aggregation and offsetting (paragraphs 15–35 of IAS 1).
12. An extract of paragraph 4 of IAS 1 is presented below (emphasis added):

**This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting. However, paragraphs 15–35 apply to such financial statements.**

13. In respect of these principles, proponents of this view observe that:
- (a) paragraph 15 of IAS 1 requires an entity to “present fairly the financial position, financial performance and cash flows of an entity” in order to achieve a fair presentation of the financial statements;
  - (b) paragraph 17(b) of IAS 1 requires information to be presented in a manner that provides relevant, reliable, comparable and understandable information; and
  - (c) paragraph 29 of IAS 1 requires each material class of similar items to be presented separately.
14. Proponents of this view also think that View 1 is consistent with the guidance in IAS 7 *Statement of Cash Flows* for preparing and presenting an annual statement of cash flows, because:
- (a) paragraph 20 of IAS 7 requires a reconciliation between profit or loss and cash flows from operating activities when the indirect method is used to report cash flows from operating activities; and
  - (b) paragraph 21 of IAS 7 requires an entity to separately report major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

***View 2—present a three-line condensed statement of cash flows***

15. This view follows a strict interpretation of the requirements in paragraph 10 of IAS 34, namely that:
- (a) only the major headings and subtotals included in the most recent condensed interim statement of cash flows should be presented in the condensed statement of cash flows
  - (b) additional line items or notes shall be included *if* their omission would make the condensed interim financial statements misleading.
16. As a result, an entity would present a three-line statement of cash flows showing only the totals for operating, investing and financing cash flow activities.

## Summary of outreach conducted

17. We asked IOSCO and national standard-setters to provide us with qualitative or quantitative information on the following aspects:

Q1. In response to this issue, I would very much appreciate if you could please provide me with qualitative and/or quantitative information on what the prevalent approach in your jurisdiction is for presenting a condensed statement of cash flows. Is it common for an entity to present:

- (a) a three-line condensed financial statement of cash flows that shows only a total for each of the operating, investing and financing activities? or
- (b) a more detailed structure of the condensed financial statement of cash flows reflecting the different nature of an entity's activities?

I would appreciate receiving examples of the condensed statements of cash flows that are typical in your jurisdiction.

If you have any other information that you think would be useful in analysing this issue, or any general comments to make on this topic, please include them in your response.

## Responses received

18. We received responses from a member of IOSCO and from 17 national standard-setters. The views received represent informal opinions and do not reflect the formal views of those organisations.

## Responses from national standard-setters

19. The geographical breakdown for the responses received from national standard-setters is as follows:

<b>Geographical region</b>	<b>Number of respondents</b>
Asia	5
Europe	5
Americas	4
Oceania	2
Africa	1
<b>Total respondents</b>	17

20. We summarise the results of the outreach in the following paragraphs.

*Prevalent approach*

21. A great majority of the respondents informed us that the prevalent approach is to present a more detailed structure of the condensed statement of cash flows rather than a three-line condensed financial statement of cash flows that shows only a total for each of the operating, investing and financing activities.

22. Some respondents provided us with quantitative information (ie examples of financial statements) supporting this prevalent approach.

23. About a third of the respondents mentioned that in their jurisdictions local regulators or market requirements enforce the presentation of a detailed structure of the condensed statement of cash flows.

*Three-line condensed statement of cash flows*

24. One respondent noted that a three-line condensed financial statement of cash flows is more commonly presented by financial institutions (ie banks and insurance companies).

25. About a third of the respondents think that a three-line condensed statement of cash flows is sufficient to meet the requirements in IAS 34, but noted that it is common practice to present a condensed statement of cash flows using the same format as the annual financial statement.

*Judgement involved*

26. A couple of respondents stressed the fact that an entity should make its own judgement in determining the structure and content of the statement of cash flows.

*Issue raised is too broad*

27. One respondent notes that the issue raised on IAS 34 is too broad for the Interpretations Committee to consider and that this issue should be dealt with as part of the IASB's Disclosure Initiative.

**Responses received from regulators**

28. A majority of IOSCO members noted that it is common for entities to present a more detailed structure in a condensed statement of cash flows with the same or similar line items as annual financial statements.
29. One IOSCO member noted that, based on an informal review of a number of entities that apply IFRS in its jurisdiction, approximately:
- (a) 96 per cent present a more detailed structure in a condensed statement of cash flows;
  - (b) 2 per cent present a condensed statement of cash flows, showing only totals for each of the operating, investing and financing activities; and
  - (c) (another) 2 per cent show some detail for operating activities and only a total for investing and financing activities.
30. Two IOSCO members noted that securities regulators in their jurisdictions prescribe and enforce the presentation of a full set of financial statements during the interim periods using the same format as the latest annual financial statements.

**Unsolicited comments**

31. We received some unsolicited comments from three global accounting firms.
32. Three of these respondents noted that the prevalent approach is to present a detailed structure of the statement of cash flows.

33. One of these respondents acknowledged that there is diversity in practice in the application of the requirements in IAS 34 and noted that this might be due to the use of different terminology between IAS 1 and IAS 34, in particular the terms “headings and sub-totals” in IAS 34, versus “line items”, “headings” and “sub-totals” in IAS 1. This respondent also noted that constituents struggle with the meaning of “condensed” financial statements, in particular whether this means primary statements with reduced notes or summarised primary financial statements. This respondent suggested that IAS 34 could be drafted more clearly.

### Staff analysis

*Basis for supporting a detailed structure of the condensed statement of cash flows*

34. We support the presentation of a detailed structure of the condensed statement of cash flows primarily on the basis of the requirements in IAS 34 rather than on the basis that the general principles in IAS 1 for presenting an annual financial statement should equally apply to a condensed financial statement, as proponents of View 1 suggest.
35. We think that the presentation of a detailed structure of a condensed interim financial statement is based on the requirements of IAS 34, because this Standard governs the content and structure of condensed interim financial statements. We think that the application of the general principles in IAS 1 for presenting information should be considered within the context of the requirements in IAS 34.

*What is the objective of an interim condensed financial statement?*

36. We observe that in accordance with the guidance in paragraph 6 of IAS 34, the objective of an interim financial report is to:
- (a) **provide an update** on the latest complete set of annual financial statements; and

(b) **focus on new activities, events and circumstances** and not duplicate information previously reported.

37. Furthermore, we observe that one of the main purposes of an interim condensed financial statement in accordance with paragraph 15 of IAS 34 is to help users to understand the changes in an entity's financial position and performance. If there is new and relevant information arising for the first time within the interim period, this information should also be presented in an interim report. Paragraph 15 of IAS 34 states that (emphasis added):

An entity shall include in its interim financial report an **explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period**. Information disclosed in relation to those events and transactions **shall update the relevant information presented in the most recent annual financial report**.

38. Moreover, the last sentence of paragraph 25 of IAS 34 refers that (emphasis added):

**The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.**

39. Consequently, we think that the content and structure of an interim financial report should not be interpreted as a summary that repeats or duplicates information from the latest set of annual financial statements, but instead as a report that provides an update on the entity's new activities, events and circumstances arising during the interim period.

40. We think that the fact that IAS 34 governs the structure and content of condensed interim financial statements has the following implications:

(a) not all the line items that are required in IAS 1 for annual financial statements would be necessarily included in condensed financial

statements<sup>1</sup>, because an entity would need to determine which items provide useful information for decision-makers in condensed financial statements and meet the objective of providing an update on the latest complete set of annual financial statements;

- (b) an entity might decide to aggregate or disaggregate in condensed financial statements some of the line items included in annual financial statements, depending on which presentation provides more useful information; and
- (c) items that are significant for condensed financial statements would not necessarily have been displayed in annual financial statements, because they:
  - (i) might not have been significant during the annual period;  
or
  - (ii) might have arisen during an interim period and not during the annual period.

*What do we mean by a detailed structure of the condensed statement of cash flows?*

41. We observe that in accordance with the last sentence in paragraph 10 of IAS 34:

**(...) Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.**

42. We think that on the basis of paragraph 10 of IAS 34, an entity should include additional line items that would reflect the different nature of an entity's cash flow activities and would explain the structure of those cash flows, to prevent the information contained in the condensed statement of cash flows from being misleading.

43. We observe that an entity would include additional line item in situations in which:

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<sup>1</sup> However, as the results from our outreach request indicated, some jurisdictions present in their condensed statement of cash flows most of the line items included in their latest annual statement of cash flows.

- (a) a new cash flow item arises during the interim period that would warrant separate presentation; and
- (b) material cash flow information arises during the interim period.

44. We further note that to comply with paragraph 10 of IAS 34, management should employ its judgement in determining the level of disaggregation that prevents a condensed interim financial statement from being misleading.

*Why is our view consistent with the guidance in IAS 7 Statement of Cash Flows?*

45. We think that our view is also consistent with the requirements in paragraphs 3 and 4 of IAS 7, because a detailed structure of the condensed statement of cash flows would enable users to:

- (a) understand and analyse an entity's ability to generate and use cash and cash equivalents; and
- (b) receive the benefits of cash flow information .

46. An extract of paragraphs 3 and 4 of IAS 7 is below (emphasis added):

**3 Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents (...)**

**4 A statement of cash flows**, when used in conjunction with the rest of the financial statements, **provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency)** and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information **is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models** to assess and compare the present value of the future cash flows of different entities. **It also enhances the comparability of**

**the reporting of operating performance** by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

## Conclusion

47. On the basis of our analysis above, we think that the presentation of a three-line condensed statement of cash flows, which only shows totals for operating, investing and financing cash flows activities, would not help users to understand:
- (a) an entity's ability to generate and use cash flows during the interim period; and
  - (b) how an entity's cash flow information has been updated with respect to the cash flow information included on the latest annual period.
48. We think that, on the contrary, presenting such succinct information increases the risk of making this information misleading, because it would prevent users from performing the following activities (with respect to the information included in the latest annual statement of cash flows):
- (a) understanding the changes in cash flows for specific line items;
  - (b) performing meaningful trend analysis;
  - (c) evaluating an investment opportunity based on an entity's ability to pay dividends; or
  - (d) evaluating growth opportunities.

*Is the guidance in paragraph 10 of IAS 34 clear that a detailed structure of a condensed statement of cash flows is required?*

49. We think that the guidance in paragraph 10, when analysed in conjunction with other guidance in IAS 34 (for example, the objective of an interim report in accordance with paragraph 6 or the inclusion of significant information in

accordance with paragraph 15 of IAS 34) could be read to require the inclusion of more detailed information in a condensed interim financial report.

50. However, we acknowledge that paragraph 10 of IAS 34 read in isolation may provide a technical basis for presenting a three-line condensed statement of cash flows, because a literal reading of this paragraph may suggest that the headings and subtotals included in the latest annual financial statements (prepared in accordance with IAS 1) should *only* be presented as part of a condensed financial statement.
51. In respect to the minimum requirements of a condensed financial statement included in paragraph 10 of IAS 34 we propose to emphasise in this paragraph that condensed financial statements should include:
  - (a) information reflecting the changes in financial position and performance of the entity since the latest annual reporting period; and
  - (b) additional line items or notes to prevent the information in a financial report from being misleading.
52. Our proposed amendment to paragraph 10 of IAS 34 is shown in **Appendix A** of this paper.

### **Staff recommendation**

53. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper, we think that our proposed amendment meets the criteria for inclusion in the **Annual Improvements cycle for 2013-2015**.
54. We recommend including additional guidance in paragraph 10 of IAS 34 to clarify the content and minimum requirements of an interim financial report. In this respect we recommend stating in this paragraph that condensed financial statements should include:
  - (a) information reflecting the changes in financial position and performance of the entity since the latest annual reporting period; and

- (b) additional line items or notes to prevent the information in a financial report from being misleading

*Transition provisions and effective date*

55. We propose that an entity should apply the amendment retrospectively. Earlier application should be permitted.

*First time adopters*

56. We think that a first-time adopter should apply the amendment to IAS 34 with effect for its first interim condensed financial statements prepared in accordance with IAS 34. In this respect we think that a clarifying amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* is not necessary.

*Consequential amendments*

57. We have reviewed other IFRSs for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

*Proposed amendment*

58. The proposed amendment to the guidance in paragraph 10 of IAS 34 is shown in **Appendix A** of this agenda paper.

**Questions to the Interpretations Committee**

1. Does the Interpretations Committee agree with our analysis in this paper and our conclusion that an entity should present a detailed structure of the condensed statement of cash flows?
  
2. Does the Interpretations Committee agree with the staff's recommendation to amend paragraph 10 of IAS 34 as shown in **Appendix A** of this paper?

## Appendix A—Proposed amendment

### Proposed amendment to IAS 34 *Interim Financial Reporting*

Paragraph 10 of IAS 34 is amended. New text is underlined and deleted text is struck through.

#### Form and content of interim financial statements

- 10 If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include information reflecting the changes in financial position and performance of the entity since the latest annual reporting period. ~~At a minimum a condensed financial statement shall include,~~ each of the headings and subtotals that were included in its most recent annual financial statements and shall include the selected explanatory notes as required by this Standard. Additional line items or notes shall be included ~~if their omission would make to prevent~~ the condensed interim financial statements from being misleading.

#### Effective date

- 58 *Annual Improvements* [2013–2015] issued in [date] amended paragraph 10. An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

## **Basis for Conclusions on the proposed amendments to IAS 34 *Interim Financial Reporting***

*This Basis for Conclusions accompanies, but is not part of, the proposed amendments.*

### **Form and content of interim financial statements**

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- BC1 The IASB received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34 *Interim Financial Reporting*.
- BC2 The IASB observed that there are divergent views on the application of the requirements in paragraph 10 of IAS 34 regarding presentation and content of the condensed statement of cash flows in the interim financial statements. One view was that an entity could present a detailed structure of the condensed statement of cash flows showing cash flows by nature. Another view was that an entity could present a three-line condensed statement of cash flows showing only a total for each of the operating, investing and financing cash flow activities.
- BC3 The IASB observed that the requirements in paragraph 10 of IAS 34 should not be interpreted to mean that an entity should only present a three-line condensed statement of cash flows showing totals for each of the entity's operating, investing and financing cash flow activities.
- BC4 Instead, the IASB observed that if an entity publishes a condensed set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of IAS 34 (ie minimum requirements and selected explanatory notes).
- BC5 With respect to the minimum requirements of a condensed financial statement, the IASB proposes to emphasise in paragraph 10 of IAS 34 that a condensed financial statement should include the presentation of information regarding the events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. The IASB also proposes to emphasise that additional line items or notes shall also be included to prevent the information in a financial report from being misleading.

## Appendix B

### Agenda criteria assessment

B1 The staff’s assessment of the agenda criteria is as follows:<sup>2</sup>

#### Agenda criteria

<p>We should address issues (5.16):</p> <p>that have widespread effect and have, or are expected to have, a material effect on those affected.</p> <p>where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.</p> <p>that can be resolved efficiently within the confines of existing IFRSs and the <i>Conceptual Framework for Financial Reporting</i>.</p> <p>In addition:</p> <p>Can the Interpretations Committee address this issue in an efficient manner (5.17)</p> <p>Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.</p>	<p><b>Yes.</b> On the basis of our analysis of the outreach results received from standard-setters and regulators, we could observe that the issue is considered widespread and that diversity in practice exists because divergent views have arisen on the application of paragraph 10 of IAS 34 regarding the form and content of interim financial statements.</p> <p><b>Yes.</b> We think that the proposed amendment would promote the consistent application of the guidance in IAS 34 when an entity presents condensed financial statements in accordance with the requirements in IAS 34.</p> <p><b>Yes.</b> We think that further guidance is needed to clarify that the minimum content of an interim financial report as paragraph 10 of IAS 34 could be interpreted as requiring a three-line condensed financial statement.</p> <p><b>Yes.</b> We think that the proposed amendment should be included as part of the annual improvements project.</p> <p><b>Yes.</b> The proposed amendment will be effective for a reasonable time period. As we have explained above, the proposed improvement is justified.</p>
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#### Additional criteria for annual improvements

<p>In addition to the implementation and</p>	
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<sup>2</sup> These criteria can be found in the [IFRS Foundation Due Process Handbook](#) .

maintenance criteria, an annual improvement should (6.11, 6.12):

- Replace unclear wording;
- Provide missing guidance; or
- Correct minor unintended consequences, oversights or conflict.

**Yes.** We acknowledge that paragraph 10 of IAS 34 read in isolation may provide a technical basis for presenting a three-line condensed statement of cash flows, because a literal reading of this paragraph may suggest that only the headings and subtotals included in the latest annual financial statements (prepared in accordance with IAS 1) should only be presented as part of a condensed financial statement.

We recommend stating in this paragraph that that condensed financial statements should include:

(a) information reflecting the changes in financial position and performance of the entity since the end of the latest annual reporting period; and

(b) additional line items or notes to prevent the information in a financial report from being misleading.

Consequently, we think that our proposals to amend IAS 34 clarify the guidance in paragraph 10 of IAS 34.

Not change an existing principle or propose a new principle

**Yes.** We think that the proposed amendment is not changing an existing principle or proposing a new principle. Instead, we think that the propose amendment clarify the existing guidance in IAS 34 regarding the minimum requirements of the condensed financial statements.

Not be so fundamental that the IASB will have to meet several times to conclude (6.14)

**Yes.** We think that the proposed amendment is not so fundamental that the IASB will have to meet several times to conclude.

**The Chair**

Date: 30 October 2013  
ESMA/2013/1554

**Wayne Upton**  
Chairman of IFRS IC  
Cannon Street 30  
London EC4M 6XH  
United Kingdom

**Agenda item request: Condensed statement of cash flows**

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

As a result of the review of financial statements carried out by national competent authorities and ESMA's co-ordination activities we have identified an issue related to the application of IAS 34 – *Interim Financial Reporting* which we would like to bring to the attention of the IFRS Interpretations Committee for further consideration.

A detailed description of the case is set out in the appendix to this letter.

We would be happy to further discuss this issue with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Steven Maijoor'. The signature is stylized and written over a light blue horizontal line.

Steven Maijoor  
Chair  
European Securities and Markets Authority



## APPENDIX – DETAILED DESCRIPTION OF THE ISSUE

1. As part of its monitoring and supervisory activities, ESMA and national enforcers have identified divergent application of IFRS requirements regarding presentation of the condensed statement of cash flows in the interim financial statements.

### Description of the issue

2. Issuers have divergent views on the application of the IAS 34 requirements regarding presentation and content of the condensed statement of cash flows. Some issuers present in their condensed interim financial statement a three-line condensed statement of cash flows that shows only a total for each of operating, investing and financing activities even though the nature of activities under each total might be diverse. Other issuers present a more detailed structure of the condensed statement of cash flows reflecting the different nature of activities.
3. Pursuant to paragraph 8 of IAS 34 an entity shall present a condensed statement of cash flows in its interim financial report. Paragraph 10 of IAS 34 requires the condensed statement of cash flows to include, at a minimum, each of the headings and subtotals included in the most recent annual financial statements and requires additional line items to be included if their omission would make the condensed interim financial statements misleading.
4. Paragraph 4 of IAS 1 – *Presentation of Financial Statements* specifies that paragraphs 15 - 35 of IAS 1 apply to the condensed interim financial statements prepared in accordance with IAS 34.
5. Paragraph 17(b) of IAS 1 requires information to be presented in a manner that provides relevant, reliable, comparable and understandable information.
6. Paragraph 29 of IAS 1 requires each material class of similar items to be presented separately. In addition, it requires separate presentation of items of a dissimilar nature or function unless they are immaterial.

### View 1

7. Proponents of View 1 argue that a three-line condensed statement of cash flows will not meet normally requirements of paragraphs 17(b) and 29 of IAS 1.
8. For example, a single line named '*cash flows from investing activities*' without any further explanation might be insufficient in relation to the requirements of paragraph 17(b) of IAS 1. If cash flows from investing activities arise, e.g. from investments in fixed assets and financial assets, these



should be stated explicitly and reported separately, as the risk of the future cash flows will be different.

9. The same observations may be made regarding cash flows from financing activities. A single line called '*cash flows from financing activities*' provides no information as to whether this refers to loan drawdown or repayment, dividend payment or other financial or equity transaction.
10. According to paragraph 21 of IAS 7 – *Statement of Cash Flows*, an entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. Proponents of view 1 thus argue that normally, it will be necessary to report issuance and repayment of debt on a gross basis in the condensed interim statement of cash flows in order for the information to be relevant, reliable, comparable and comprehensible.
11. Finally, when the statement of cash flows is prepared using the indirect method, reconciliation between profit or loss and cash flows from operating activities needs to be presented. Paragraph 20 of IAS 7 requires presentation of adjustments of profit or loss for the effects of transactions of non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments when reporting cash flows from operating activities. Proponents of view 1 argue that paragraph 17(b) of IAS 1 requires such reconciliation to be provided in the condensed interim financial statements as well. In their view, reconciling items may be aggregated in the condensed interim statement of cash flows, but material non-cash transactions and changes in working capital should be presented separately.

#### *View 2*

12. Proponents of view 2 argue that, if the only headings and subtotals in the statement of cash flows included in the entity's most recent annual financial statements referred to the three lines (i.e. cash flows from operating, investing and financing activities) an entity presenting a three-line condensed statement of cash flows fulfils the requirements of paragraph 10 of IAS 34.
13. In their view, the IASB included a very high threshold in IAS 34 (condensed interim financial statements being misleading) to trigger reporting of additional line items in the condensed interim financial statements.

#### **Request**

14. ESMA questions whether presentation of a three-line condensed statement of cash flows meets the requirements of IAS 34 read together with the principles included in IAS 1 and IAS 7. However, ESMA acknowledges that the wording of requirements in paragraph 10 of IAS 34 might conflict with these principles. Based on the discussion of the issue in European Enforcers Coordination Sessions



(EECS), ESMA found that enforcers in at least seven EU Member-States have encountered presentation of a three-line condensed statement of cash flows.

15. Accordingly, ESMA kindly suggests that IFRS Interpretations Committee considers clarifying the accounting requirements in this respect.