
IASB[®] meeting

Date	September 2024
Project	Statement of Cash Flows and Related Matters
Topic	Project commencement
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. The International Accounting Standards Board (IASB) decided to add a project on the statement of cash flows and related matters to the research pipeline following feedback on its Request for Information Third Agenda Consultation.
2. The purpose of this paper is to announce the project moving from the research pipeline to the research work plan and to provide the IASB with an overview of:
 - (a) the preliminary feedback on the project; and
 - (b) the work the staff plan to undertake to support a decision on the project scope.
3. This paper should be read in conjunction with Agenda Paper 20A which summarises a review of academic literature on the statement of cash flows and related matters.
4. This paper is structured as follows:
 - (a) preliminary feedback on the project (paragraphs 5–9);
 - (b) plan for research to support decision on project scope (paragraphs 10–21);
 - (c) questions for the IASB; and
 - (d) appendix A—summary of key messages from the joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meeting in June 2024.

Preliminary feedback on the project

5. We have reviewed the feedback received in the Third Agenda Consultation (paragraphs 8–9) and conducted a preliminary review of the available academic research (Agenda paper 20A of this meeting) to identify topics that the IASB might consider in deciding the scope of the project.
6. During the June 2024 joint CMAC-GPF meeting, the staff asked members to share their experiences in preparing and using the information presented in the statement of cash flows or disclosed in the notes applying IFRS Accounting Standards (see Appendix A). The comments received were consistent with feedback in the Third Agenda Consultation and the initial academic research.
7. Based on this initial work we have identified the following topics that the IASB might explore in the project on the statement of cash flows and related matters:
 - (a) Should the project consider changing the requirements for classifying cash flows into operating, investing and financing categories?
 - (b) Should the project consider specific disaggregation requirements for information about cash flows? For example, separating capital expenditures into maintenance and growth.
 - (c) Should the project consider changing the definition of cash and cash equivalents?
 - (d) Should the project consider requiring the use of the direct method?
 - (e) Should the project consider presentation or disclosure requirements for additional information about the non-cash effects of some transactions?
 - (f) Should the project consider presentation or disclosure requirements for information about commonly used cash flow measures? For example, free cash flows.
 - (g) Should the project consider specific requirements for the statement of cash flows for financial institutions?

Recap of Third Agenda Consultation

8. Most respondents to the Request for Information Third Agenda Consultation commented on a potential project on the statement of cash flows and related matters and many of them rated it as high priority. Most users of financial statements who commented on this project rated it as high priority.
9. We have reviewed the [Request for Information Third Agenda Consultation](#), the [Feedback Statement Third Agenda Consultation](#) comment letters received and the related staff papers. We have gathered stakeholder views that the IASB considered when it added the project on the statement of cash flows and related matters to the research pipeline. Stakeholders' comments focused on:
 - (a) *requirements for classifying cash flows into operating, investing and financing categories*—some stakeholders said classification of cash flows should be reviewed and noted the current classification in the statement of cash flows is not aligned with the classification in the statement of profit or loss that was proposed in the Primary Financial Statements Project (this classification is included in IFRS 18 *Presentation and Disclosure of Financial Statements* effective from 1 January 2027).
 - (b) *disaggregation requirements for information about cash flows*—some stakeholders said some information presented in the statement of cash flows should be disaggregated. For example, requiring an entity to disaggregate:
 - (i) net cash flows attributable to the operating, investing and financing activities of discontinued operations;
 - (ii) working capital changes; and
 - (iii) capital expenditures as maintenance or growth (with guidance on making this split).
 - (c) *definition of cash and cash equivalents*—some stakeholders suggested the IASB review the definition of cash and cash equivalents, particularly:

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- (i) whether cryptocurrencies can be considered as cash;¹ and
 - (ii) whether there is a better basis than the maturity period of an investment to determine if the investment is a cash equivalent.
- (d) *use of the direct method (instead of, or as well as, the indirect method)*—some stakeholders said:
- (i) the direct method would reduce the difficulty of reconciling the statement of cash flows to the other primary financial statements;
 - (ii) the direct method could provide more information about operating cash flows, such as cash flows arising from supplier finance arrangements and cash collected from customers;² and
 - (iii) the direct and indirect methods, used in combination, might help to eliminate basic cash flow errors.
- (e) *requirements for additional information about the effects of non-cash transactions*—some stakeholders (including some users) said:
- (i) it is difficult to reconcile the statement of financial position to the statement of cash flows because of non-cash effects of some transactions such as leases, supply chain financing arrangements and the factoring of trade receivables;
 - (ii) the IASB should require companies to either present these non-cash effects in the statement of cash flows or disclose them in the notes; and
 - (iii) the IASB should require entities to present a statement of changes in net debt because there is a poor level of compliance with the requirements in paragraphs 44A– 44E of IAS 7 *Statement of Cash Flows* to disclose changes

¹ In June 2019, IFRIC published a decision on Holdings of Cryptocurrencies concluding that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

² In May 2023, the IASB issued *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The Amendments complement the existing disclosure requirements in IFRS Accounting Standards and are aimed at providing users of financial statements with information to assess the effect of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

- (f) *requirements for information about commonly used cash flow measures*—some stakeholders (including some users) requested the IASB standardise the definitions of some commonly used cash flow measures, such as free cash flows. These stakeholders said there is a lack of information in the statement of cash flows that is needed to calculate these measures.
- (g) *requirements for the statement of cash flows for financial institutions*—some stakeholders commented that:
 - (i) the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice;
 - (ii) the needs of investors and other stakeholders for information about cash flows are already met by IFRS 7 *Financial Instruments: Disclosures* and the Basel Regulatory Framework;
 - (iii) the IASB should consider either removing the requirement to present a statement of cash flows for financial institutions or developing a statement of cash flows specifically for financial institutions; and
 - (iv) the statement of cash flows is important for a financial institution because it provides essential information, such as cash flows relating to dividend payments, capital issued and repaid, and acquisitions and disposals.

Plan for research to support decision on project scope

10. We think the topics identified in the Third Agenda Consultation, academic literature review and early stakeholder feedback provide a comprehensive list of the perceived deficiencies with the current requirements of IAS 7 (see paragraph 7). We plan to perform initial research to gather evidence of the nature and extent of these perceived deficiencies and the likely benefits of developing new financial reporting requirements. This research will provide evidence for the IASB to decide the scope of the project. The initial research will also provide initial insight into possible ways of improving the perceived deficiencies.

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11. We plan to report our initial research findings to the IASB in Q1 2025 when we will ask the IASB whether it has enough evidence to decide on the project scope at a subsequent meeting. Our research to support the project scope is planned to include:
- (a) consultative group and individual stakeholder meetings (paragraphs 12–17);
 - (b) review results of National Standard Setter projects (paragraphs 18–19);
 - (c) financial statement analysis (paragraph 20); and
 - (d) review related IASB projects (paragraph 21).

Consultative group and individual stakeholder meetings

12. We plan to meet with stakeholders individually and in representative groups (including consultative group meetings) to better understand the nature and extent of the perceived issues with the statement of cash flows and related disclosures required by IFRS Accounting Standards. The feedback from these meetings will also provide evidence of the likely benefits of developing new requirements and provide initial insight into possible solutions.
13. We plan to focus on understanding how preparers and users use cash flow information for their analyses. Consequently, we plan to target approximately 30 individual meetings, half with preparers and half with users. We also plan to attend the remaining consultative group meetings in 2024 which include GPF, CMAC, Accounting Standards Advisory Forum and Emerging Economies Group. Our questions for discussion at both individual and consultative group meetings will seek to understand:
- (a) how preparers and users classify cash flows between operating, investing and financing for their analyses and why these classifications might differ from each other or requirements in IFRS Accounting Standards;
 - (b) how preparers disaggregate cash flow information, why these might differ from line items presented in the statement of cash flows and what users observe as best practice;

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- (c) how preparers define non-GAAP measures, adjustments made to cash flow information required by IFRS Accounting Standards and how users analyse these measures; and
 - (d) what cash flow information in addition to that required by IFRS Accounting Standards is disclosed by preparers or sought by users.
 - 14. We will also ask preparers about the systems and process they use to produce the statement of cash flows and related disclosures to identify the cost implications of possible solutions to the perceived issues. This will include exploring the extent to which the direct method is used and changes that might be necessary if it were required.
 - 15. We will ask users how they use cash flow information in their analyses, including how cash flow information is combined with information presented in other primary financial statements or disclosed in the notes. For example, the use of information about non-cash transactions.
 - 16. We will specifically target a sample of users and preparers of cash flow information for various types of financial institutions (including ‘conglomerates’) for individual meetings. We plan to ask them specific questions about the usefulness of current information and whether there is different presentation or disclosure specific to these entities that might be more useful.
 - 17. We plan to approach the large accounting firms as a group to ask their experience with the statement of cash flows and related disclosures and whether the identified topics capture the issues they see in practice. We will also ask regulators as a group whether:
 - (a) they have information on the nature and causes of frequent errors they encounter in the statement of cash flows; and
 - (b) they are aware of any jurisdictional restrictions or additional presentation or disclosure requirements related to the statement of cash flows and related information.

Review results of National Standard Setter Projects

18. We are aware that several national standard-setters (NSS) have ongoing, or recently completed, standard setting or research projects on the topic of the statement of cash flows and related matters. We will review the outputs of these projects for evidence on the nature and extent of the perceived issues and likely benefits of developing new requirements for the topics identified in paragraph 7 and to identify whether other issues have been raised. We plan to meet with the relevant project teams to better understand these outputs.
19. We will also ask NSS whether they are aware of any jurisdictional restrictions or additional presentation or disclosure requirements related to the statement of cash flows and related information.

Financial statement analysis

20. We plan to analyse the financial statements and management commentary in a sample of annual reports to understand current practice in the statement of cash flows and related disclosures and how the use of non-GAAP cash flow information is reported. We plan to comprehensively review a small sample of IFRS reporters from varied jurisdictions and industries as a preliminary analysis and to use digital tools, when possible, to analyse specific information for larger samples. We also plan to gather relevant descriptive statistics included within the academic studies included in the literature review. The objective will be to evidence any diversity in the classification and disaggregation of cash flow information and to understand the additional information provided by any non-GAAP measures.

Review related IASB projects

21. The IASB has undertaken previous projects that have considered aspects of the statement of cash flows and related matters. We plan to review staff papers and IASB decisions from these projects, which might provide insight into the nature and extent of the perceived issues and initial insight into possible ways of improving the perceived deficiencies.

Questions for the IASB

1. Does the IASB have any comments or questions on the topics arising from the Third Agenda Consultation and the academic literature review?
2. Does the IASB have any comments or questions on the planned research to support the decision on the scope of the project? Specifically:
 - (a) are these the right research activities (for example, are there any other activities we should do or any activities that we should not do)?
 - (b) is the extent of the planned activities sufficient to provide enough evidence to decide on the scope (for example, should we plan to conduct more in person meetings)?
 - (c) are there any specific questions we should consider asking in stakeholder meetings?
 - (d) are there any comments on our plan to report our initial research findings to the IASB in Q1 2025 and ask whether there is enough evidence to decide on the scope of the project at a subsequent meeting?

Appendix A—Summary of key messages from joint CMAC-GPF meeting

- A1. During the June 2024 joint CMAC-GPF meeting, the staff asked members to share their experiences with preparing and using the information presented in the statement of cash flows or disclosed in the notes applying IFRS Accounting Standards.
- A2. Some CMAC and GPF members said the requirements in IAS 7 mostly work well. Some other members said that some improvements to the requirements are needed mainly in the following areas:
- (a) *requirements for classifying cash flows into operating, investing and financing categories*—some GPF members said they classify cash flows for internal reporting differently than the presentation requirements in IAS 7.
 - (b) *disaggregation requirements for information about cash flows*—some members said that disaggregation of information should be required for:
 - (i) capital expenditures, specifically disaggregation of growth and maintenance expenditure;
 - (ii) changes in working capital; and
 - (iii) cash flow information related to different business segments.
 - (c) *definition of cash and cash equivalents*—some GPF members said:
 - (i) cash and cash equivalents were internally defined differently than they are defined in IAS 7.
 - (ii) different companies classify the same financial instruments differently, which might hinder comparability among companies. For example, a financial instrument with a maturity period of less than 3 months might be considered as a cash equivalent by one company and an investment by another.
 - (d) *use of the direct method*—many GPF members said it would be costly to implement the direct method and some CMAC members said that the indirect method provides them with useful information.

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- (e) *effects of non-cash transactions*—some CMAC members said that reconciling the statement of cash flows to the statement of financial position is sometimes difficult and there is a need for more information on non-cash transactions.
 - (f) *requirements for information about commonly used cash flow measures*—most members said that it would be useful to have a standardised definition of ‘free cash flows’. Some other members said it might not be necessary for the IASB to define the term ‘free cash flow’ if it required entities to disclose transparent information for understanding and calculating individual measures.
 - (g) *statement of cash flows for financial institutions*—members said that the statement of cash flows prepared in accordance with IAS 7 has limited usefulness for financial institutions.