IFRS Accounting

Staff paper

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Project	**Statement of Cash Flows and Related Matters**
Topic	**Improving the transparency of information about cash flow measures**
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Objective of this paper

1. At its July 2025 meeting, the International Accounting Standards Board (IASB) discussed Agenda Paper 20A on how the requirements for management-defined performance measures (MPMs) in IFRS 18 *Presentation and Disclosure in Financial Statements* could be extended to also apply to measures relating to the statement of cash flows not specified in IFRS Accounting Standards (cash flow measures) with the objective of improving transparency of information about such cash flow measures.

2. At that meeting, the IASB made tentative decisions on how some aspects of the scope, definition and disclosure requirements for MPMs in IFRS 18 could be applied to cash flow measures and discussed further work required on other aspects of the requirements for MPMs.

3. The objective of this paper is to discuss how remaining aspects of the requirements for MPMs in IFRS 18 could be applied to cash flow measures.

4. This paper should be read in conjunction with Agenda Paper 20C of this meeting which discusses presentation of cash flows from continuing and discontinued operations.

Summary of staff recommendations

5. To extend the requirements for MPMs in IFRS 18 to also apply to cash flow measures, we recommend that the IASB:

   (a) include requirements for MPMs for cash flow measures in IFRS 18 and not in IAS 7 *Statement of Cash Flows*;

   (b) extend the definition of MPMs in paragraph 117 of IFRS 18 from 'a subtotal of income and expenses' to 'a subtotal of income and expenses or a subtotal of cash inflows and outflows';

   (c) include application guidance:

      (i) to clarify that subtotals combining income and expenses and cash flows are MPMs; and

      (ii) to require an entity to disclose the effects of income tax and non-controlling interest (NCI) for reconciling items in the reconciliation of an MPM that is a subtotal of income and expenses and cash flows, if the MPM is reconciled to a subtotal in the statement of profit or loss;

   (d) specify that these three subtotals of cash inflows and outflows are not MPMs;

      (i) net cash from operating activities;

      (ii) net cash used in investing activities; and

      (iii) net cash used in financing activities; and

   (e) revise the disclosure requirement in paragraph B137(a) of IFRS 18 from 'disclose the amount(s) related to each line item in the statement(s) of financial performance' to 'disclose the amount(s) related to each line item in the related statement—either the statement of profit or loss or the statement of cash flows'.

Structure of the paper

6. This paper is structured as follows:

   (a) background (paragraphs 7–30);

   (b) staff analysis and questions for the IASB (paragraphs 31–68);

   (c) Appendix A—Illustrative amendments to the requirements for MPMs in IFRS 18 and its application guidance; and

   (d) Appendix B—Financial statement analysis of cash flow measures.

Background

Summary of the IASB's tentative decisions and comments from IASB members at the July 2025 meeting

7. At its July 2025 meeting, the IASB tentatively decided to propose:

   (a) applying to cash flow measures, unchanged, the parts of the IFRS 18 definition of an MPM that describe an MPM as a measure that:

      (i) an entity uses in public communications outside financial statements; and

      (ii) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole;

   (b) extending the rebuttable presumption for MPMs in IFRS 18 so it also applies to cash flow measures; and

   (c) extending the disclosure objective for MPMs and specific disclosure requirements for MPMs in IFRS 18 to also apply to cash flow measures.

8. The IASB also tentatively decided not to propose extending the requirement for an entity to disclose the income tax effect and the effect on NCI for each item disclosed

in the reconciliation between the MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards to also apply to cash flow measures.

9. The IASB discussed additional analysis required to adapt to the definition and disclosure requirements of MPMs, including:

(a) how the aspect of the MPM definition 'a subtotal of income and expenses' would need to be revised to include cash flow measures. The IASB discussed adding the phrase 'a subtotal of cash inflows and outflows'. However, further analysis was needed.

(b) whether the disclosure requirement in paragraph B137(a) of IFRS 18 requiring an entity to disclose the amounts related to each line item in the statement of financial performance for each reconciling item in the reconciliation between the MPM and the most directly comparable subtotal specified in IFRS Accounting Standards could apply without change to cash flow measures. Further analysis was needed to understand the usefulness of this information to users of financial statements and potential costs to prepares.

(c) which subtotals of cash inflows and outflows should be specified as excluded from requirements for MPMs and would serve as directly comparable subtotals used to reconcile MPMs. Further analysis was needed to identify the most relevant subtotals for reconciling cash flow measures to the statement of cash flows or might be exempt from MPM disclosures applying a similar approach to IFRS 18.

10. At its July 2025 meeting, IASB members provided the following comments and suggestions to consider in analysing further what equivalent to 'subtotals of income and expenses' could be used in the definition of an MPM for cash flow measures and in extending some aspects of the disclosure requirements for MPMs to also apply to cash flow measures:

(a) cash flow measures might be constructed using direct cash flow items as well as items related to the indirect method of reporting operating cash flows in the statement of cash flows, such as non-cash adjustments and changes in working capital. Developing wording to capture the appropriate measures might require evaluating the implications of these components.

(b) some cash flow measures that include only cash outflows, such capital expenditure might provide useful information. It is useful to evaluate whether such measures should be included within the definition of an MPM.

(c) a possible definition for cash flow measures like ‘a subtotal of cash inflows and outflows’ would provide a link to the definition of ‘cash flows’ in paragraph 6 of IAS 7.

(d) it is useful to consider specifying any additional subtotals that are well understood and commonly used to exclude from requirements for MPMs and to avoid requiring unnecessary additional disclosures. Some examples might be cash from operating activities before income taxes and net change in working capital.

(e) it is important to consider whether the requirements for cash flow measures would be included in IAS 7, or if these requirements would be included as an amendment to IFRS 18.

Summary of the key messages from CMAC and GPF meetings

11. At the November 2025 Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meetings, staff asked CMAC and GPF members for their views on cash flow subtotals that might be included in the requirements for MPMs and disclosures related to cash flow measures reconciliations.

Summary of key messages from November 2025 CMAC meeting

The cash flow subtotals that might be included in the requirements for MPMs

12. CMAC members generally said that the following subtotals commonly used in the statement of cash flows could be excluded from the MPM disclosure requirements and

would serve as useful anchor points for reconciling cash flow measures to the statement of cash flows:

(a) net cash from operating activities;

(b) net cash used in investing activities;

(c) net cash used in financing activities; and

(d) cash from operating activities before income taxes.

13. Some CMAC members said that net change in working capital from the statement of cash flows is a useful subtotal to investors and providing disaggregated information about changes in working capital will improve transparency.

14. One CMAC member said that the cash flows from operating activities before income taxes would be a useful subtotal when considering an unlevered cash flow measure that is unaffected by income taxes.

15. Some CMAC members said net cash from operating activities, which is a commonly used subtotal, would work well as an anchor point to reconcile a Free Cash Flow (FCF) type measure to the statement of cash flows rather than specifying an additional subtotal that would serve as an anchor for FCF. They said that entities could provide relevant disclosures for the adjustments included between the cash flow measure and the net cash from operating activities.

16. However, some other CMAC members said that specifying a subtotal that would serve as an anchor for FCF would be useful as it provides a consistent reference for a FCF measure and enhances its clarity given the difficulty of providing a common definition for a FCF measure due to the diverse calculation methods involved. However, a few said it would be difficult to achieve agreement on the composition of a subtotal that would serve as an anchor point for FCF.

17. Some CMAC members said it would be more useful if a subtotal that serves as a starting point for FCF included only cash flows from continuing operations, because the subtotal would reflect an entity's ongoing performance.

Disclosures related to cash flow MPM reconciliations

18. Many CMAC members said that disclosing the amounts related to each line item in the statement of cash flows for each reconciling item in the reconciliation of cash flow measures is helpful, particularly regarding complex adjustments, such as net capital expenditure or net interest payments, when a reconciling item relates to multiple line items in the statement of cash flows. However, some CMAC members said it might not always be necessary, if the relevant cash flow items can be identified easily.

19. Some CMAC members also highlighted the importance of this disclosure, particularly when reconciling items related to cash flow line items in the indirect method reconciliation of the statement of cash flows, such as changes in working capital, as it would improve the measure's transparency and usefulness.

Summary of key messages from November 2025 GPF meeting

The cash flow subtotals that might be included in the requirements for MPMs

20. GPF members generally said that the following category subtotals in the statement of cash flows are useful anchor points for reconciling cash flow measures to the statement of cash flows and could be excluded from the MPM disclosure requirements:

    (a) net cash from operating activities;

    (b) net cash used in investing activities; and

    (c) net cash used in financing activities.

21. Many GPF members said net cash from operating activities, which is a commonly used subtotal in the financial statements, would work well as an anchor point to reconcile a FCF type measure to the statement of cash flows rather than specifying an additional subtotal that would serve as an anchor for FCF.

22. Some GPF members said that they provide narrative disclosures, including footnotes, and cross-references to the notes to the financial statements on reconciling items of

the reconciliations of cash flow measures when they provide information about alternative performance measures (APMs) to provide transparency of the measure.

23. Some GPF members said that it would not be difficult to disclose the impact to the line items relating to investing and financing categories in the statement of cash flows such as net capital expenditure and net interest payments. However, these members said that their accounting systems might not support disclosing how some reconciling items relate to the amounts included in the line items in the operating category when reported using the indirect method in the statement of cash flows, such as changes in working capital.

Other relevant stakeholder feedback

24. At the June 2025 CMAC-GPF meeting, CMAC members said that adjusted cash flow measures relating to operating cash flows, specifically FCF type measures, are more important than other types of cash flow measures. However, CMAC members said if entities include cash flow measures related to investing and financing activities in their public communications, providing disclosures about those measures would be useful. (Summary of key messages from the June 2025 joint CMAC-GPF meeting of Agenda Paper 20A in the July 2025 IASB meeting)

25. During initial outreach some stakeholders said it might be unclear to an entity applying IFRS 18 whether a specific measure is an MPM or a cash flow measure outside the scope of the requirements for MPMs because of the composition of some measures. These stakeholders said having disclosure requirements for both MPMs as defined in IFRS 18 and cash flow measures would provide transparency for both types of measures, reducing the importance of the distinction between the two. (Recap of initial research findings of Agenda Paper 20A in the July 2025 IASB meeting)

26. This feedback was further confirmed by another regulator in recent outreach. They said that for some measures it is unclear whether they relate to the statement of profit or loss or the statement of cash flows. However, in their view, including both types of

measures in the financial statements and having reconciliations is more important than other disclosure requirements that might be specific to either measure.

Review of our sample of financial statements

27. To support our analysis of how to expand 'subtotals of income and expenses' in the definition of an MPM to also apply to cash flow measures, we reviewed the financial statements of the 25 non-financial institutions from our sample of companies. (Appendix A of Agenda Paper 20C of the March 2025 IASB meeting explains the composition of the sample of companies).

28. We observed that 20 out of these 25 entities have disclosed adjusted operating cash flows or FCF type measures, either providing a reconciliation between a subtotal relating to the statement of cash flows or the statement of profit or loss and the specific measure or providing a narrative explanation of the measure. (Appendix B includes illustrations of different compositions of cash flow measures).

Other related research

29. To support our analysis, we reviewed two reports:

    (a) *On the Use of Alternative Performance Measures and on the Compliance with ESMA's APM Guidelines*, published by the European Securities and Market Authority (ESMA) in December 2019; and

    (b) *Thematic Review: Alternative Performance Measures (APMs)*, published by the UK Financial Reporting Council in October 2021.

30. Both reports identified that free cash flow and capital expenditure are two measures related to the statement of cash flows that are more commonly reported by entities.

Staff analysis and questions for the IASB

31. Following from the IASB's discussion at its July 2025 meeting, in this section, we will analyse the following outstanding topics:

    (a) whether to include the requirements for cash flows measures in IFRS 18 or develop requirements for cash flow measures in IAS 7 (paragraphs 32–36);

    (b) how to expand 'a subtotal of income and expenses' in the definition of an MPM to also apply to cash flow measures (paragraphs 37–51);

    (c) what subtotals of cash inflows and outflows should be added to the list of measures relevant for reconciling the cash flow measures and will be excluded from the requirements for MPMs (paragraphs 52–59); and

    (d) whether to extend the requirement to disclose, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance for cash flow measures (paragraphs 60–68).

Whether to include the requirements for cash flows measures in IFRS 18 or develop requirements for cash flow measures in IAS 7

32. As explained in paragraph 1 of this paper, the IASB decided to extend the requirements for MPMs in IFRS 18 to also apply to cash flow measures. Many stakeholders considered this approach a practical way of improving transparency of information about cash flow measures. (Paragraph 12 of Agenda Paper 20A of the July 2025 IASB meeting.)

33. At the July 2025 meeting, a few IASB members also said we should consider whether the requirements for cash flow measures should be included as an amendment to IFRS 18, or as separate requirements in IAS 7 (see paragraph 10).

34. Our analysis in the following sections consider how the requirements for MPMs in IFRS 18 could be adapted to also apply to cash flow measures. Based on that analysis we think including the requirements relating to all types of MPMs in one IFRS

Accounting Standard would better support the consistent application and enhance understanding of the requirements for the following reasons:

(a) developing a separate set of requirements for cash flow measures would involve significant duplication because minimal changes are necessary to apply the requirements equally to measures of income and expenses and cash flow measures;

(b) having a single definition of an MPM and a single reference point for their disclosure requirements simplifies application; and

(c) having the same requirements for measures based on the statement of profit or loss and measures based on the statement of cash flows facilitates application guidance for measures that might affect line items in both statements.

35. Appendix A provides the illustrative amendments to the requirements for MPMs in IFRS 18 and its application guidance to reflect the fact that the scope of these requirements has been extended to include cash flow measures. This includes revising the language to refer to the statement of cash flows where relevant and updating the references to reflect the expanded scope and the definition of MPMs.

36. We have outlined the question for the IASB on including the requirements for MPMs as an amendment to IFRS 18 at the end of the analysis, following the discussion on the application of these requirements to cash flow measures.

How to expand 'a subtotal of income and expenses' in the definition of an MPM to also apply to cash flow measures

37. This section analyses whether expanding the definition of an MPM by adding 'a subtotal of cash inflows and outflows' would sufficiently capture the appropriate cash flow measures within the requirements for MPMs.

38. This definition is closely linked with the IFRS 18 definition of 'a subtotal of income and expenses', and it would capture most cash flow measures including FCF type measures which are commonly used.

39. Based on our financial statement analysis, we observed that out of the 25 sample entities, 20 entities communicated cash flow measures that are not subtotals of the categories of the statement of cash flows. The measures communicated by these 20 entities were adjusted operating cash flows or FCF type measures (of these two measures were adjusted funds from operations). From these 20 entities, the measures disclosed by 18 entities would be captured within the definition of a 'subtotal of cash inflows and outflows'. The remaining two measures might not be captured by the definition 'a subtotal of cash inflows and outflows' because they include both income and expenses and cash flows. We discuss such measures in paragraphs 46–47 of this paper.

40. Further, FCF and the capital expenditure are identified as commonly used cash flow measures in the two reports referred to in paragraph 29 of this paper. The FCF measures would be captured by the definition 'a subtotal of cash inflows and outflows' based on the observations discussed in the reports. We discuss cash flow measures that only include cash outflows such as capital expenditure in paragraphs 44–45 of this paper.

41. We observed that some entities have constructed FCF type measures by adjusting subtotals in the statement of profit or loss, such as operating profit, applying the indirect method for reporting operating cash flows. Some IASB members also asked us to consider whether a definition of 'a subtotal of cash inflows and outflows' would include a FCF type measure that is calculated by including adjustments for changes in working capital and non-cash items.

42. We observed that in many cases, as shown in illustration 1 in Appendix B (paragraph B3), the first part of the reconciliation involves deriving the subtotal of operating cash flow, which is then adjusted to arrive at the FCF measure. In these cases, we think cash flows from operating activities is the starting point of the reconciliation which would be then adjusted for the relevant items to calculate an adjusted cash flow measure.

43. We have also analysed the possible implications on the definition of 'a subtotal of cash inflows and outflows' arising from the following instances:

    (a) cash flow measures that include only cash inflows or only cash outflows (paragraphs 44–45);

    (b) measures that include income and expenses and cash flows (paragraphs 46–47); and

    (c) interaction with the disclosure for the effects of NCI and income tax (paragraphs 48–51).

Cash flow measures that include only cash inflows or only cash outflows

44. We observed in our research, and one IASB member said, there are some cash flow measures provided by entities which include only cash outflows, such as capital expenditures (paragraphs 10 and 29–30). These types of measures will not be captured within the requirements of MPMs applying the definition 'a subtotal of cash inflows and outflows'. However, we think these types of measures are not 'used to communicate to users of financial statements management's view of an aspect of the *financial performance* of the entity as a whole' which is another aspect of the definition of an MPM.

45. We think limiting the measures to subtotals of cash inflows and outflows aligns with the MPM requirements in IFRS 18 which include only subtotals of income and expenses excluding subtotals of only income or only expenses. Entities' measures of capital expenditures are also generally included as adjustments in their FCF measures and additional disclosures would be required regarding these adjustments when they are included, resulting in sufficient transparency.

Measures that include income and expenses and cash flows

46. Some stakeholders said, and we observed in our financial statements analysis, sometimes it is difficult to clearly distinguish between measures based on the statement of profit or loss and those based on the statement of cash flows because

some measures that entities communicate combine income and expenses and cash flows. (see paragraphs 25–26) and illustrations 2–3 in paragraph B4 in Appendix B). We see some entities reconcile these measures to a subtotal in the statement of cash flows considering these as cash flow measures while other entities consider the same measure as a profit or loss measure that reconciles to a subtotal in the statement of profit and loss. A definition based on either income or expenses or cash inflows and outflows might not include such measures because these measures combine elements of both types of measures.

47. We think the measures that include income and expenses and cash flows should be within the scope of the requirements for MPMs as we observe that entities use such measures communicate to users of financial statements management's view of an aspect of the financial performance of the entity in their public communications. In order to ensure such measures are included within the requirements for MPMs, we think the IASB could include application guidance specifying that a measure including a combination of income and expenses and cash flows is an MPM. A draft of the clarification is included in the illustrative amendments to paragraph B116 of IFRS 18 in appendix A.

Interaction with the disclosure for the effects on NCI and income tax

48. At the July 2025 meeting, the IASB decided not to extend the requirement to disclose the income tax effect and the effect on NCI for each item disclosed in the reconciliation for cash flow measures (paragraph 8).

49. If the IASB was to include application guidance specifying that if a subtotal combines income and expenses and cash flows be included as an MPM, a question might arise whether the disclosure requirement for tax and NCI should apply to such measures.

50. We think this can be resolved by using the starting point of the reconciliation to determine whether the disclosure requirement should apply. Paragraph 123(c) of IFRS 18 requires an MPM to be reconciled to the most comparable total or subtotal. If the measure reconciles to a subtotal in the statement(s) of financial performance, then the

most directly comparable subtotal is a measure of profit or loss and the requirement for tax and NCI should apply. Paragraph B140A of Appendix A illustrates how IFRS 18 might be amended to specify when the requirement for tax and NCI would apply.

51. We observe that entities use measures that combine income and expenses and cash flows as either cash flow measures or profit or loss measures. Consequently, we expect it to be straightforward for entities to identify the most directly comparable subtotal. We think using the starting point to determine whether an entity would be required to provide tax and NCI information will also create an incentive for entities to more clearly define MPMs as either subtotals of only income and expenses or only cash inflows and outflows. There would be an incentive because entities will want to calculate and present tax and NCI information only where it is useful to avoiding any costs associated with providing unnecessary information.

Question for the IASB

Question for the IASB
1. Does the IASB agree with the staff recommendation to: (a) extend the definition of MPMs in paragraph 117 of IFRS 18 from ‘a subtotal of income and expenses’ to ‘a subtotal of income and expenses or a subtotal of cash inflows and outflows’; and (b) include application guidance: (i) to clarify that subtotals combing income and expenses and cash flows are MPMs; and (ii) to require an entity to disclose on the effects of income tax and NCI for reconciling items in the reconciliation of an MPM that is a subtotal of income and expenses and cash flows, if the MPM is reconciled to a subtotal in the statement of profit or loss?

What cash flow subtotals should be used for reconciliations

52. This section analyses which subtotals of cash inflows and outflows should be excluded from the requirements for MPMs and could be used for reconciling subtotals of cash inflows and outflows.

53. IAS 7 does not explicitly require entities to present subtotals for each category in the statement of cash flows. However, there is an implication that subtotals are included for each of the categories of the statement of cash flows and we observe these are commonly presented in practice. We think these subtotals might serve as useful anchor points to which cash flow measures could be reconciled and are well understood by the users of financial statements. These subtotals are:

(a) net cash from operating activities;

(b) net cash used in investing activities; and

(c) net cash used in financing activities.

54. CMAC and GPF members said that having category subtotals in the statement of cash flows which are commonly used and well understood to reconcile cash flow measures would enhance the comparability of the disclosures and the transparency of the measures. These members also said FCF type measures, which are the most commonly used, are usually reconciled to cash flows from operating activities (see paragraphs 12 and 20).

55. We considered whether there are additional subtotals which are commonly presented within the categories of the statement of cash flows other than the category subtotals which are well understood by users of financial statements. Some of these possible additional subtotals might be:

(a) cash from operating activities before income taxes;

(b) net change in working capital; and

(c) a newly created subtotal based on the line items in the statement of cash flows that could serve as an anchor point for FCF.

56. However, we think developing such a list might have limited benefits given the most commonly used cash flow measure is FCF and most CMAC and GFP members said this is best reconciled to 'net cash from operating activities', one of the category subtotals in the statement of cash flows. (see paragraphs 15 and 21). One CMAC member said that the cash flows from operating activities before income taxes would

be a useful subtotal when considering an unlevered cash flow measure that is unaffected by income taxes (see paragraph 14).

57. At the June 2025 joint meeting CMAC members said that having more transparency in all cash flow measures including measures that adjust investing or financing cash flows would be useful (see paragraph 24). Therefore, considering the feedback of CMAC and GPF members, we recommend that the IASB specify the three subtotals for the categories in the statement of cash flows, excluding them from the requirements for MPMs and making them available to use as comparable subtotals to reconcile cash flow measures to the statement of cash flows.

58. In Agenda Paper 20C of this meeting, we recommend that the IASB require an entity to present cash flows from discontinued operations in a separate category of the statement of cash flows. This would result in the category subtotals representing only the cash flows from continuing operations. CMAC members said they prefer a subtotal that includes only cash flows from continuing operations as a starting point for FCF type measures (see paragraph 17). Therefore, we think the recommendation in Agenda Paper 20C would be consistent with including cash flows from operating activities as a starting point for entities to reconcile FCF type measures to the statement of cash flows because entities would be required to reconcile to a measure that excludes discontinued operations.

59. As part of its work on improving the consistent application of the classification requirements in the statement of cash flows, the IASB might decide to change the classification of some line items. For example, some stakeholders have suggested presenting income taxes in a separate category. Although such changes might affect the composition of the net cash flows from the operating activities subtotal, we think the result would be that some entities might need to include additional reconciling items in their reconciliations. Given the composition of MPMs are decided by management and there is significant variation in the items included in FCF type measures, we do not think this effects the usefulness of net cash flows from operating activities as a starting point for such reconciliations.

Question for the IASB

Question for the IASB
2. Does the IASB agree with the staff recommendation to specify that these three subtotals of cash inflows and outflows are not MPMs: (a) net cash from operating activities; (b) net cash used in investing activities; and (c) net cash used in financing activities?

Whether to extend the disclosure requirement on reconciling items to cash flow measures

60. This section analyses whether to extend the requirements for MPMs for an entity to disclose, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance to also apply to cash flow measures. This would require disclosing for each reconciling item in the cash flow measures reconciliation, the amount(s) related to each line item in the statement of cash flows. We have separately considered:

   (a) reconciling items that relate the line items in the investing, financing cash flows and direct operating cash flows (paragraphs 61–63); and

   (b) reconciling items that relate to the line items in the operating cash flows presented using indirect method (paragraphs 64–68).

Reconciling items that relate to the line items in the investing, financing cash flows and direct operating cash flows

61. We think applying the requirement to relate line items in the reconciliation to line items in the statement of cash flows would enhance the transparency of cash flow measures. The requirement for MPMs that are subtotals of income and expenses was developed because items in the MPM reconciliation often relate to multiple line items in the statement of profit or loss and it is not always clear how they relate. Similarly, we observe that reconciling items for cash flow measures can also relate to multiple

line items in the investing and financing categories of the statement of cash flows. For examples, a single adjustment for 'net capital expenditure' might relate to multiple line items such as purchase of property, plant and equipment (PPE), proceeds from sale of PPE and purchases of intangible assets or net interest expenditure might relate gross inflows and outflows. However, this disclosure might not have an effect when the same line items in the statement of cash flows are the reconciling items.

62. The feedback from CMAC members was that in such cases, having this disclosure would enhance transparency and usefulness of the cash flow measure. However, these members said that when a reconciling item relates to a single line item in the statement of cash flows, which could be often the case, further disclosures might not be necessary as the relationship between the reconciling item and the line items in the statement of cash flows is clear (see paragraph 18).

63. GPF members also said that disclosing such line items within the investing and financing categories in the statement of cash flows would be possible (see paragraph 23).

Reconciling items that relate to the line items in the operating cash flows presented using indirect method

64. We observe that some reconciling items in the reconciliation of a cash flow measure relate to cash flows from operating activities. When an entity presents operating cash flows using the indirect method a single adjustment might relate to multiple line items of the indirect reconciliation. For example, an adjustment for the cash effect of 'restructuring' might affect operating profit and items that comprise 'changes in working capital'.

65. Some CMAC members highlighted the importance of disclosing the impact of the reconciling items related to cash flow line items when presenting cash flows from operating activities using the indirect method in the statement of cash flows—for example, changes in working capital. These members said having granular information about working capital is useful. Providing the further disclosures

regarding the items included in the changes in working capital would result in more granular information (see paragraph 19).

66. However, a few GPF members said that it would not be possible to provide this information as their systems do not support identifying the relevant impact to the changes in working capital items (see paragraph 23). Some other GPF members questioned why the information wouldn't be available because the difference between the expense and cash amount would need to be known to be able to calculate the cash amount.

67. Based on the feedback from CMAC members we think there is evidence that the information provided by the disclosure requirement for reconciling items relating to line items of the operating cash flows presented using the direct method or investing or financing cash flows would improve transparency and the usefulness of the cash flow measure. However, the response from GPF members suggests, the disclosures specific to line items of the operating cash flows presented using the indirect method might be costly for some preparers. Because the cost concerns about the disclosure are limited to the items included in the indirect reconciliation, we think the disclosure requirement could be revised to include an exception specific to these line items if the IASB were to conclude that those costs might outweigh the benefits.

68. As there is not sufficient evidence to decide that cost of applying the disclosure would exceed the benefits, we recommend that the IASB extend the requirement, unchanged to also apply to cash flow measures. However, we will further engage with a wider group of users and preparers to assess the extent of the benefits and the cost concerns. If that research provides evidence that the benefits might be less or the costs might be higher than expected, we will bring another paper to the IASB to consider an exception or a practical expedient for the specific items resulting in cost concerns.

Questions for the IASB

Questions for the IASB

3. Does the IASB agree with the staff recommendation to revise the disclosure requirement in paragraph B137(a) of IFRS 18 from 'disclose the amount(s) related to each line item in the statement(s) of financial performance' to 'disclose the amount(s) related to each line item in the related statement—either the statement of profit or loss or the statement of cash flows?
4. Does the IASB agree with the staff recommendation to include requirements for MPMs for cash flow measures in IFRS 18 and not in IAS 7?

Appendix A—Illustrative amendments to the requirements for MPMs in IFRS 18 and its application guidance

A1. This appendix includes an example of how IFRS 18 might be amended to extend the requirements and application guidance to also include cash flow measures. The example is intended to demonstrate the feasibility of including the IASB's tentative decisions within the Standard. Further consideration will be needed to develop drafting included in a consultation document. New text is underlined and deleted text is struck through.

Identification of management-defined performance measures

117 A management-defined performance measure is a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u> that (see paragraphs B113–B122):

(a) an entity uses in public communications outside financial statements;

(b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and

(c) is not listed in paragraph 118, or specifically required to be presented or disclosed by IFRS Accounting Standards.

118 Subtotals of income and expenses that are not management-defined performance measure are:

(a) gross profit or loss (revenue minus cost of sales) and similar subtotals (see paragraph B123);

(b) operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36;

(c) operating profit or loss and income and expenses from all investments accounted for using the equity method;

(d) for an entity that applies paragraph 73, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category;

(e) profit or loss before income taxes; and

(f) profit or loss from continuing operations.

118A Subtotals of cash inflows and outflows that are not management-defined performance measures are:

(a) net cash from operating activities;

(b) net cash flows used in investing activities; and

(c) net cash used in financing activities.

119 An entity shall presume that a subtotal of income and expenses or a subtotal of cash inflows and outflows that it uses in public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, unless, applying paragraph 120, the entity rebuts the presumption.

120 An entity is permitted to rebut the presumption described in paragraph 119 and assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole, but only if it has reasonable and supportable information available that demonstrates the basis for the assertion (see paragraphs B124–B131)

Disclosure of management-defined performance measures

121 The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:

(a) the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and

(b) how the management-defined performance measure compares with the measures defined by IFRS Accounting Standards.

122 An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the management-defined performance measures provide management's view of an aspect of the

financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

123 An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management defined performance measure, the entity shall disclose:

(a) a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance.

(b) how the management-defined performance measure is calculated.

(c) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118<u>, 118A</u> or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards (see paragraphs B136–B140).

(d) the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c)<u>, if the management-defined performance measure is a subtotal of income and expenses.</u>

(e) a description of how the entity applies paragraph B141 to determine the income tax effect required by (d).

124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

(b) the reasons for the change, addition or cessation.

(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of IAS 8.

125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Identification of management-defined performance measures

B113 Paragraph 117 defines management-defined performance measures. An entity might have no management-defined performance measures, one management-defined performance measure or more than one. For example, an entity that publicly communicates its financial performance to users of financial statements using only totals and subtotals required to be presented or disclosed by IFRS Accounting Standards does not have a management-defined performance measure.

B114 To meet the definition of a management-defined performance measure, the measure must communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. For example, if a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u> that relates to a reportable segment disclosed in accordance with IFRS 8 does not provide information about an aspect of the financial performance of the entity as a whole, that subtotal cannot meet the definition of a management-defined performance measure.

B115 However, sometimes a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u> that relates to a reportable segment could provide information about an aspect of the financial performance of the entity as a whole. For example, if a reportable segment contains a single main business activity of the entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss, that would indicate that the subtotal provides information about an aspect of the financial performance of the entity as a whole. In such cases, a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u> related to that reportable segment would meet the definition of a management-defined performance measure if it met the other parts of the definition of a management-defined performance measure.

Subtotals of income and expenses <u>or cash inflows and outflows</u>

B116 A management-defined performance measure is a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u>. <u>A subtotal that includes a combination of income and expenses and cash flows is a management-defined performance measure.</u> Examples of measures that are not management-defined performance measures because they are not subtotals of income and expenses<u> or subtotals of cash inflows and outflows</u> include:

(a) subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses);

<u>(aa) subtotals of only cash inflows or only cash outflows;</u>

(b) assets, liabilities, equity or combinations of these elements;

(c) financial ratios (for example, return on assets) (see paragraph B117); <u>or</u>

(d) ~~measures of liquidity or cash flows (for example, free cash flow)~~ <u>[deleted]</u>

(e) non-financial performance measures.

B117 A financial ratio is not a management-defined performance measure because it is not a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u>. However, a subtotal that is the numerator or denominator in a financial ratio is a management-defined performance measure if the subtotal would meet the definition of a management-defined performance measure if it were not part of a ratio. Accordingly, an entity shall apply the disclosure requirements in paragraphs 121–125 to such a numerator or denominator.

B118 A subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u>, that meets the definition of a management-defined performance measure in paragraph

117 is a management-defined performance measure whether or not it is presented in the statement of profit or loss <u>or the statement of cash flows</u>.

Public communications

B119 A subtotal meets the definition of a management-defined performance measure only if an entity uses it in public communications outside its financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications and social media posts.

B120 Management-defined performance measures relate to the same reporting period as the financial statements. Specifically, a subtotal:

(a) relating to interim financial statements but not to the annual financial statements can only be a management-defined performance measure in the interim financial statements; and

(b) relating to annual financial statements but not to interim financial statements can only be a management-defined performance measure in the annual financial statements.

B121 An entity shall consider only public communications related to the reporting period to identify management-defined performance measures for the reporting period, unless as part of its financial reporting process it routinely issues such public communications after the date of issue of its financial statements. If that is the case, an entity shall consider public communications related to the previous reporting period to identify management-defined performance measures for the current reporting period.

B122 However, a measure used in the public communications related to the previous reporting period is not required to be identified as a management-defined performance measure for the current reporting period if there is evidence that indicates it will not be included in the public communications to be issued relating to the current reporting period. If such a measure had been disclosed as a management-defined performance measure in the previous reporting period and is not identified as such for the current reporting period, that would be a change to, or a cessation of, a management-defined performance measure to which the disclosure requirements in paragraph 124 apply.

Subtotals similar to gross profit

B123 In accordance with paragraph 118(a), subtotals similar to gross profit are not management-defined performance measures. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:

(a) net interest income;

(b) net fee and commission income;

(c) insurance service result;

(d) net financial result (investment income minus insurance finance income and expenses); and

(e) net rental income.

Presumption about communicating management's view

B124 Paragraph 119 states that a subtotal of income and expenses <u>or a subtotal of cash inflows and outflows</u> used in public communications outside its financial statements is presumed to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. Applying paragraph 120, an entity is permitted to rebut that presumption if it has reasonable and supportable information available that demonstrates that:

(a) the subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole (see paragraphs B125–B128); and

(b) the entity has a reason for using the subtotal in its public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole (see paragraph B129).

B125 Examples of reasonable and supportable information that demonstrate that a subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of an entity as a whole are:

(a) an entity communicating the subtotal without prominence (see paragraph B126); and

(b) management not using the subtotal internally to assess or monitor the entity's financial performance (see paragraphs B127–B128).

B126 Whether an entity communicates a subtotal without prominence is a matter of judgement based on a number of factors, for example:

(a) the extent of references to the subtotal—few references indicate a lack of prominence, numerous references indicate prominence; and

(b) the content of commentary or analysis about or relying on the subtotal, for example:

(i) a description of the subtotal as information that does not communicate management's view and that is provided only in response to frequent requests from some users of financial statements indicates a lack of prominence;

(ii) use of the subtotal to support management analysis and commentary on the entity's financial performance and to provide explanations of the reasons for changes in the subtotal from period to period indicates prominence; and

(iii) a comparison of the subtotal to competitors' subtotals or industry benchmarks indicates prominence.

B127 Management's use of a subtotal to assess or monitor an aspect of the financial performance of the entity as a whole demonstrates that the subtotal communicates management's view of an aspect of the financial performance of the entity as a whole. However, if management uses a subtotal internally but not in an entity's public communications, the subtotal does not meet the definition of a management-defined performance measure.

B128 An entity might adjust a subtotal communicated in its public communications for use internally by management to assess or monitor the entity's financial performance. In such cases, the entity shall use its judgement to assess whether the subtotal it uses internally is sufficiently similar to the subtotal it uses in its public communications so that paragraph B127 applies. The more similar the subtotals are, the more likely it is that the subtotal used in the entity's public communications communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole.

B129 Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole are that the subtotal:

(a) is required in a public communication by law or regulation;

(b) communicates performance related to financial statements prepared in accordance with an accounting framework other than IFRS Accounting Standards;

(c) is used in a public communication to satisfy a request from an external party; or

(d) is used in a public communication for the purpose of communicating information other than financial performance.

B130 Paragraph 120 applies to a subtotal and not to individual items of income and expense <u>or cash inflows and outflows</u> that comprise the subtotal. Accordingly, an entity cannot assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole based on information that demonstrates that an individual item (or items) of income or expense <u>or cash inflows or outflows</u> within the subtotal does not represent such a view.

B131 An entity might change its use of a subtotal to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole. As a result a subtotal might become, or cease to be, a management-defined performance measure. Judgement is required to identify whether a measure not originally identified as a management-defined performance measure has become one, or whether a measure previously identified as a management-defined performance measure has ceased to be one. For example, an entity might be required by a regulator to report a particular subtotal that, when first used, does not communicate management's view of an aspect of the financial performance of the entity as a whole. Over time the process of producing the subtotal might lead to management using the measure internally to assess and monitor the entity's financial performance or expanding the commentary and explanations in public communications beyond the regulatory requirements, with the result that the measure meets the definition of a management-defined performance measure.

Disclosure of management-defined performance measures

Single note for information about management-defined performance measures

B132 Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121–125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121–125 from the other information.

B133 For example, if an entity applies IFRS 8 and the reportable segment information includes a management-defined performance measure, the entity may disclose the required information about the management-defined performance measure in the same note as other reportable segment information, provided the entity either:

(a) includes in that note the information required by paragraphs 121–125 for all its management-defined performance measures and, to fulfil the requirements in paragraph B132, labels the information in the note in a way that clearly distinguishes the information required by paragraphs 121–125 from the information required by IFRS 8; or

(b) provides a separate note that includes the information required for all its management-defined performance measures, including those for which the entity includes information in the reportable segment information.

A clear and understandable manner

B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense <u>or cash inflows or outflows</u> included and excluded from the subtotal. Therefore, an entity shall:

(a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and

(b) provide information specific to management-defined performance measures—that is:

(i) if the entity has calculated the measure other than by using the accounting policies it used for items in the statement(s) of financial performance <u>or statement of cash flows</u>, the entity shall state that fact and the calculations it has used for the measure; and

(ii) if, in addition, the calculation of the measure differs from accounting policies required or permitted by IFRS Accounting Standards, the entity shall state that additional fact and, if necessary, an explanation of the meaning of terms it uses (see paragraph B135(b)).

B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:

(a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label 'operating profit before non-recurring expenses' only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and

(b) explain the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines 'non-recurring expenses').

Reconciliation to the most directly comparable subtotal

B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118, 118A or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. Or for example, an entity that discloses in the notes a management-defined performance measure of free cash flow shall reconcile that measure to net cash flow from operating activities. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.

B137 For each reconciling item, an entity shall disclose:

(a) the amount(s) related to each line item in the statement to which it relates, either the statement(s) of financial performance or the statement of cash flows;

(b) and a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).

B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense or cash outflows, some because they were identified as outside management's control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.

B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense or cash inflows or outflows in calculating a management-defined performance measure based on an entity-specific application of 'non-recurring'. In such a case, a single explanation that includes the entity's definition of 'non-recurring' that applies to all reconciling items might satisfy the requirement in paragraph B137(b).

B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure, which is a subtotal of income and expenses to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:

(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and

(b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Income tax effect and the effect of non-controlling interest for each item disclosed in the reconciliation

B140A The requirement in paragraph 123(d) to disclose the income tax effect and the effect of non-controlling interest for each item disclosed in the reconciliation between a management-defined performance measure and the most directly comparable subtotal applies to subtotals of income and expenses. This requirement applies to any management-defined performance that is reconciled to a subtotal included in the statement(s) of financial performance.

B141 An entity is required by paragraph 123(d) to disclose the income tax effect and the effect for each item disclosed in the reconciliation between a management-defined performance measure, unless the management defined-performance measures is a subtotal of cash inflows and outflows and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. An entity shall determine the income tax effect required by paragraph 123(d) by calculating the income tax effects of the underlying transaction(s):

(a) at the statutory tax rate(s) applicable to the transaction(s) in the tax jurisdiction(s) concerned;

(b) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or

(c) by using another method that achieves a more appropriate allocation in the circumstances.

B142 If, applying paragraph B141, an entity uses more than one method to calculate the income tax effects of reconciling items, it shall disclose how it determined the tax effects for each reconciling item.

Appendix B—Financial statement analysis of cash flow measures

B1. This appendix includes the observations from our financial statement analysis of cash flow measures.

B2. Of the 20 entities that have disclosed free cash flow (FCF) type measures, 17 have adjusted cash flows from operating activities in deriving the FCF measure, making it directly reconcilable to cash flows from operating activities in the statement of cash flows.

B3. We observed that one of the 20 entities disclosed a FCF measure adjusting earnings before interest, tax, depreciation and amortisation (EBITDA), a subtotal related to the statement of profit or loss. Even though the starting point is an income and expense measure, the reconciliation replicates the indirect method reconciliation making it a cash flow measure reconcilable to cash flows from operations. An example for the composition of such a free cash flow measure is illustrated below:

Illustration 1

EBITDA	3500
(-) Changes in working capital	(440)
(-) Income taxes	(150)
(-) Capital expenditure	(330)
(-) Net interest payments	(70)
(-) Acquisition and disposals of investments	(50)
Free cash flow	**2460**

These line items in the reconciliation calculates cash flows from operating activities

These line items reconcile cash flows from operating activities to the free cash flow.

B4. Out of 20 entities, two disclosed 'funds from operations' (FFO). One reconciled it to cash flow from operating activities, while the other reconciled it to net profit. Both measures can be reconciled to a subtotal in either the statement of profit or loss or the statement of cash flows, as they include both income, expenses, and cash flows.

Illustration 2 – Adjusted funds from operations reconciled to net operating cash flows

Net cash from operating activities	2,500
(+) Interest paid	150
(+) Income taxes paid	400
(-) Change in non-cash operating working capital	(100)
	2,950

(-) Net finance expense	(170)
(-) Current income tax expense	(370)
(-) Sustaining capital expenditure	(600)
Adjusted funds from operations	**1,810**

Illustration 3 – Adjusted funds from operations reconciled to net profit for the period

Net profit for the period	2,800
(+) Impairment losses on receivables	400
(+) Depreciation and amortisation	950
(+) Foreign currency translation loss	100
Funds from operations	**4,250**
(-) Capital expenditures	(1,100)
Adjusted Funds from operations	**3,150**