
Capital Markets Advisory Committee Global Preparers Forum

Date	14 June 2024
Project	Statement of Cash Flows and Related Matters
Topic	Initial Research
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This paper has been prepared for discussion at a public meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF). This paper does not represent the views of the International Accounting Standards Board (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 of this session

- Provide a brief overview of stakeholder views received in the Third Agenda Consultation regarding a project on the Statement of Cash Flows and Related Matters; and
- Ask CMAC and GPF members to share their experience on the issues with preparing and using the information in Statement of Cash Flows and Related Matters.

Questions for CMAC and GPF members

1

What issues do CMAC members experience using the statement of cash flows and disclosures of related information?

Please explain why these are identified as issues.

2

What issues do GPF members experience in preparing the statement of cash flows and disclosures of related information?

Please explain why these are identified as issues.

3

What do CMAC and GPF members think works well with statement of cash flows and disclosures of related information?

Please explain any specific reasons.

Information for CMAC and GPF members

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Background of the project

- In its April 2022 meeting, the IASB decided to add a project on the Statement of Cash Flows and Related Matters to the research pipeline following the feedback to its Third Agenda Consultation.
- The matters raised by stakeholders include both presentation issues (such as the classification of cash flows, disaggregation, application of direct method, definition of cash flows etc.) and other issues (such as improved disclosures about non-cash movements, implications to financial institutions, cash flow measures etc.)
- As part of the research phase of the project, the IASB will consider whether the project should aim to review IAS 7 *Statement of Cash Flows* comprehensively or make more targeted improvements.
- The project is planned to move from the research project pipeline to the research work plan in Q3 in 2024.

Feedback from Third Agenda Consultation

Summary of the feedback

The following slides summarise stakeholder feedback received in the Third Agenda Consultation regarding a project on the Statement of Cash Flows and Related Matters. The topics stakeholders identified that might be considered in the project are not presented in any specific order and include:

1. Cash flow measures and other disclosures
2. Effects of non-cash transactions
3. Classification of cash flows
4. Disaggregation of cash flow information
5. Implications to financial institutions
6. Application of the direct method
7. Definition of cash and cash equivalents

1. Cash Flow Measures and Other Disclosures

Views of Stakeholders

- Stakeholders requested standardised definitions of some cash flow measures, for example, free cash flows.
- Further they requested the IASB develop additional disclosure requirements that provide information on how companies manage cash inflows and outflows to meet payment obligations, plan for future payments etc.

2. Impact of Non-cash Movement on Statement of Cash Flows

Views of Stakeholders

- Stakeholders highlighted the difficulty in reconciling the Statement of Financial Position with Statement of Cash Flows due to the effect of non-cash movements
- Therefore, they suggested either requiring non-cash movements be presented in the Statement of Cash Flows or requiring further disclosures of non-cash movements
- Some stakeholders suggested companies be required to present a statement of changes in net debt

Related recent changes to IAS 7

- In May 2023, the IASB introduced disclosure requirements for supplier finance arrangements that enable users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.
- In January 2016, the IASB introduced disclosure requirements for changes in liabilities arising from financing activities that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes

3. Classification of Cash Flows

Views of Stakeholders

- Some stakeholders requested the IASB revisit the classification of cash flows into operating, investing and financing categories specified in IAS 7, in the light of differences in the classification requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*.
- Some stakeholders suggested classification requirements be revised to provide more detail on capital expenditure, in particular separating capital maintenance from capital growth expenditure.

Related changes to IAS 7 on issuing IFRS 18

- All companies are required to use the operating profit subtotal as defined in IFRS 18 *Presentation and Disclosure in Financial Statements* as the starting point for the indirect method of reporting cash flows from operating activities.
- Accounting policy choices for the presentation of cash flows related to interest and dividends paid and received have been removed. (See Appendix A)

4. Disaggregation of Cash Flow Information

Views of Stakeholders

- Several stakeholders said some information presented in the Statement of Cash Flows should be disaggregated, for example, net cash flows attributable to the operating, investing and financing activities of discontinued operations, or working capital changes

Related changes to IAS 7 on issuing IFRS 18

- IFRS 18 *Presentation and Disclosure in Financial Statements* provides enhanced guidance on aggregation and disaggregation including:
 - roles of primary financial statements and the notes which help determine the line items presented in the primary financial statements and the information disclosed in the notes; and
 - principles which focus on grouping items based on their shared characteristics
- These principles are applied throughout the financial statements, including the Statement of Cash Flows

5. Statement of Cash Flows of Financial Institutions

Views of Stakeholders

- Some stakeholders made following comments on the statement of cash flows of financial institutions:
 - the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice;
 - the needs of stakeholders are already met by IFRS 7 *Financial Instruments: Disclosures* and the Basel Regulatory Framework; and
 - the requirements in IAS 7 are not specific to the banking industry, and it is difficult to calculate some items
- Therefore, stakeholders suggested 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
- However, some also said that it is important for a financial institution to present a statement of cash flows because it provides essential information, such as cash flows relating to dividend payments, capital issued and repaid, and acquisitions and disposals

6. Reporting Cash Flows under Direct Method

Views of Stakeholders

- Some stakeholders requested the IASB consider the feasibility of requiring the direct method because, in their view, the indirect method fails to provide users with some decision-useful information such as:
 - cash collected from suppliers
 - cash flows arising from supplier finance arrangements
- Other stakeholders noted the potential complexity and associated costs to preparers in implementing the direct method

Related recent changes to IAS 7

- In May 2023, the IASB introduced disclosure requirements for supplier finance arrangements that enable users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk

7. Definition of Cash and Cash Equivalents

Views of Stakeholders

- Some stakeholders suggested the IASB consider whether the Statement of Cash Flows should report flows of cash separately from those of cash equivalents
- Further they questioned:
 - whether cryptocurrencies could be considered as cash; and
 - whether there is a better basis other than the maturity period of an investment to determine whether the investment is a cash equivalent

Breakout group discussions

Questions for CMAC and GPF members

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What do CMAC and GPF members think work well with statement of cash flows and disclosures of related information?

Please explain any specific reasons.

Appendix

Appendix A – IFRS 18 consequential amendments to IAS 7 for the classification of interest and dividends in the Statement of Cash Flows

Cash flow item	Classification before amendments to IAS 7	Classification after amendments to IAS 7	
		Companies with no specified main business activities	Companies with specified main business activities
Interest received	Operating or investing	Investing	A single category for each item—operating, investing or financing
Interest paid	Operating or financing	Financing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

Thank you

A large, abstract geometric pattern on the right side of the slide, consisting of interconnected white and dark blue hexagonal shapes on a dark blue background.

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