
IFRS Interpretations Committee

Date	26 November 2024
Project	Statement of Cash Flows and Related Matters
Topic	Initial Research
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Purpose of this session

- Present a brief overview of the potential topics the IASB might explore in the project on Statement of Cash Flows and Related Matters.
- Seek IFRS Interpretations Committee members' views on the nature and prevalence of the perceived deficiencies, as well as any diversity in application of the requirements of IAS 7 *Statement of Cash Flows*.
- The input from the IFRS Interpretations Committee members will contribute to the IASB deciding on the topics it decides to further explore in the project.

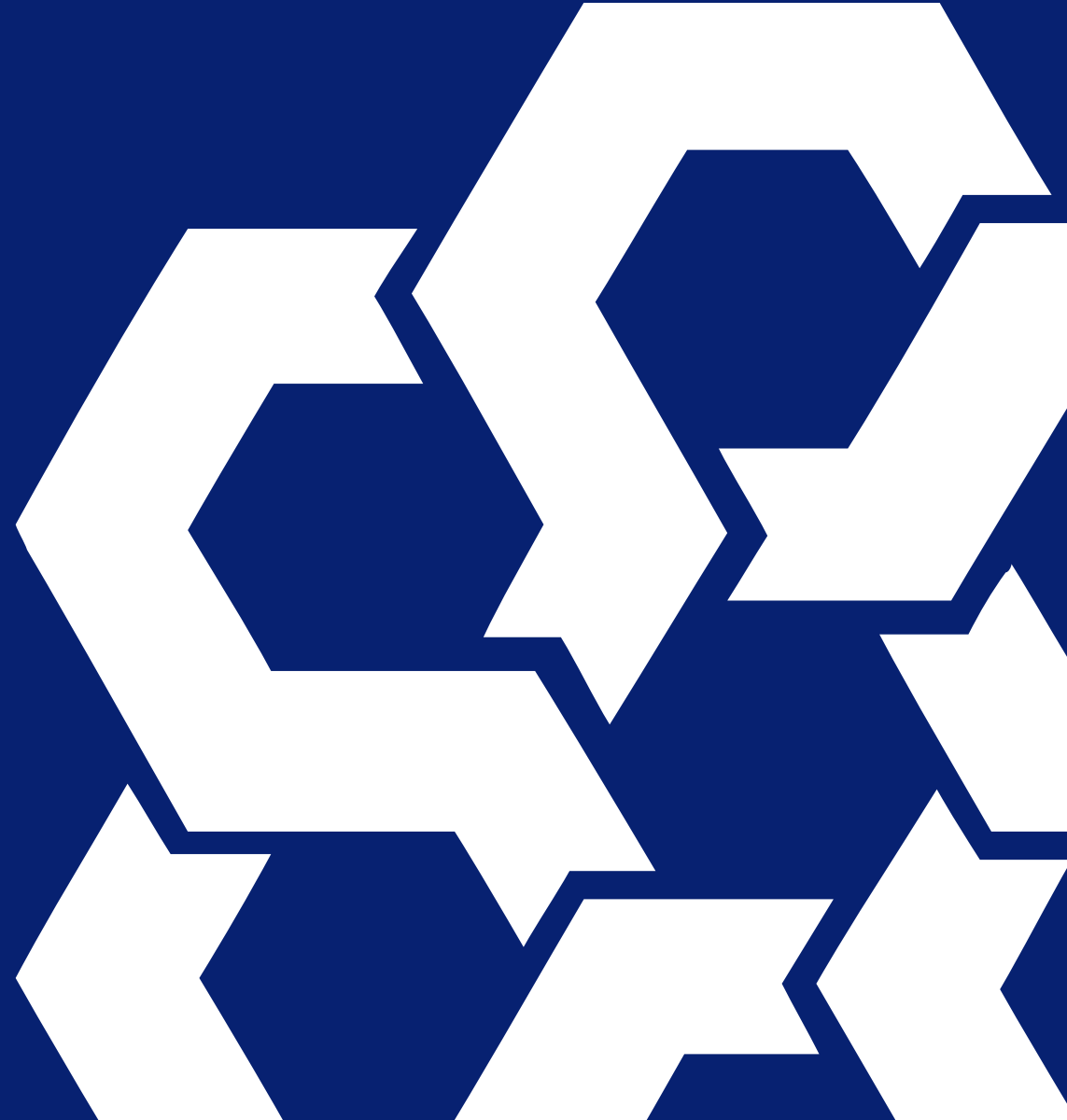
Information for Interpretations Committee members

Background information	4
Potential topics the IASB might explore in the project and questions for members	5–17
Appendices	
Appendix A– IFRS 18 consequential amendments to IAS 7 for the classification of interest and dividends	19
Appendix B – Agenda decisions on cash and cash equivalents	20
Appendix C– Agenda decisions on effects of non-cash transactions	21

Background of the project

- In its September 2024 meeting, the IASB moved the project on Statement of Cash Flows and Related Matters from the research pipeline to the research work plan.
- The IASB also sought feedback from Capital Markets Advisory Committee and Global Preparers Forum at the recent meetings in November 2024 and at the joint meeting in June 2024 before starting the project.
- The IASB is conducting initial research, including meetings with stakeholders and review of existing academic studies, to gather evidence on the nature and extent of perceived deficiencies in current reporting and the likely benefits of developing new financial reporting requirements.
- The project team plans to report the results of initial research into the issues raised by stakeholders to the IASB in Q1 2025 to help the IASB decide on the topics to further explore in the project.

Potential topics the IASB
might explore in the project
and questions for members



Potential topics the IASB might explore in the project

- The following slides summarise preliminary stakeholder feedback from Third Agenda Consultation received on a project on statement of cash flows and related matters and feedback received from the joint CMAC-GPF meeting in June 2024.
- For each topic we pose specific questions for discussion. During the discussion we would also like to understand your views on which topics are the highest priority and why.

The Key topics include:

1. Requirements for classifying cash flows
2. Disaggregation requirements for information about cash flows
3. Definition of cash and cash equivalents
4. Effects of non-cash transactions
5. Reporting cash flows from operating activities
6. Information about commonly used cash flow measures
7. Statement of cash flows for financial institutions

1. Requirements for classifying cash flows

Feedback from Agenda Consultation

- Some stakeholders requested the IASB revisit the classification of cash flows 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 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)

Questions for committee members

1. Based on your experience, have you observed different practices or interpretations in classifying cash flows in the statement of cash flows applying IAS 7, except interest and dividends paid and received for which IFRS 18 has provided consequential amendments to IAS 7? If so, is it because the guidance in IAS 7 is unclear or is there another reason?

2. Disaggregation requirements for information about cash

Feedback from Agenda Consultation

- 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.

Feedback from join CMAC-GPF meeting

- Some said that it would be useful to provide:
 - a) capital expenditures—specifically split between growth and maintenance expenditure; and
 - b) cash flow information related to different business segments.
- However, some others said distinguishing between capital growth and maintenance cash flows would be difficult.

Related changes to IAS 7 on issuing IFRS 18

- IFRS 18 provides enhanced guidance on aggregation and disaggregation including:
 - roles of primary financial statements and the notes which help determine the line items presented and the information disclosed; 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.

2. Disaggregation requirements for information about cash flows (Contd..)

Question for Committee members

1. Based on your experience, do you observe diversity in the disaggregation of information in the statement of cash flows or related disclosures?

3. Definition of cash and cash equivalents

Feedback from Agenda Consultation

- Some stakeholders suggested considering 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
 - the maturity period of an investment was the best basis to determine whether it is a cash equivalent.

Feedback from join CMAC-GPF meeting

- Diversity in practice on what can be classified as cash and cash equivalents might lead to comparability issues between companies. For example, the same financial instrument might be considered as a cash equivalent by one company and as an investment by another company.

Agenda decisions published

IFRS Interpretations Committee has published agenda decisions on the following topics which relate to the definition of cash and cash equivalents in IAS 7:

- Demand deposits with restrictions on use arising from a contract with a third party
- Holdings of cryptocurrencies
- Classification of short-term loans and credit facilities

(see Appendix B)

3. Definition of cash and cash equivalents (Contd..)

Questions for committee members

1. Have you seen diversity in how companies define cash and cash equivalents applying the requirements of IAS 7?
2. Have you observed any challenges that companies experience in applying the definition of cash and cash equivalents in IAS 7?

4. Effects of non-cash transactions

Feedback from Agenda Consultation

- Stakeholders highlighted the difficulty in reconciling the statement of financial position with statement of cash flows due to the effect of non-cash movements.
- They suggested requiring non-cash movements be presented in the statement of cash flows or disclosed in the notes.
- Some suggested companies be required to present a statement of changes in net debt.

Feedback from join CMAC-GPF meeting

- 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.

Related changes to IAS 7

- In May 2023, the IASB introduced disclosure requirements for supplier finance arrangements that enables users 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 enables users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. Effects of non-cash transactions (Contd..)

Question for committee members

1. Do you see diversity in the nature and extent of disclosures of non-cash transactions? Based on your experience, please share your views on diversity in what are described as non-cash transactions, where they are disclosed and how much information is provided?

5. Reporting cash flows from operating activities

Feedback from Agenda Consultation

- 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.

Feedback from join CMAC-GPF meeting

- Some members said that the indirect method of reporting operating cash flows provides them with useful information.
- Some others said that there are advantages and disadvantages to each reporting method
- Some also said that it would be potentially complex and costly to implement the direct method.

Questions for committee members

1. Do you observe the use of direct method? If so, do you notice any trends in relation to industries and jurisdictions?
2. Do you see companies providing selected direct cash flow disclosures, such as cash received from customers, either directly or through reconciliations?

6. Information about commonly used cash flow measures

Feedback from Agenda Consultation

- 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.

Feedback from join CMAC-GPF meeting

- Some said that it would be useful to have a standardised definition of 'free cash flows'.
- Some others 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.
- Some members said it would be useful to have a reconciliation between operating cash flow and free cash flow.

Question for committee members

1. How often do you observe use of 'free cash flows' and do you have insights to share on the diversity in the calculation of 'free cash flow'?
2. Where do you see it disclosed and how much information is provided?

7. Statement of cash flows for financial institutions

Feedback from Agenda Consultation

- Some stakeholders said the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice.
- They said the needs of stakeholders are already met by IFRS 7 *Financial Instruments: Disclosures* and the Basel Regulatory Framework.
- Stakeholders suggested either:
 - remove the requirement to present a statement of cash flows for financial institutions; or
 - develop a statement of cash flows specifically for financial institutions.

Feedback from join CMAC-GPF meeting

- The statement of cash flows prepared in accordance with IAS 7 has limited usefulness for financial institutions.

7. Statement of cash flows for financial institutions (Contd..)

Questions for committee members

1. We frequently hear that the statement of cash flows might be less useful to financial institutions. Do you have any insights to share on why?
2. We have heard that the statement of cash flows might have some limited uses for financial institutions. For example, providing insights into cash management & liquidity, providing validating information, or acting as a control measure (i.e. specifically for the management decision making). Do you have any additional insights to share on the potential uses of the statement of cash flows for financial institutions?

Appendices



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

Appendix B – Agenda decisions published by IFRS Interpretations Committee

Definition of cash and cash equivalents

Demand deposits with restrictions on use arising from a contract with a third party

- In April 2022, an agenda decision was published concluding that restrictions on the use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7. Therefore, the Committee concluded that the entity includes the demand deposit as a component of ‘cash and cash equivalents’ in its statement of cash flows.

Holdings of cryptocurrencies

- In June 2019, an agenda decision was published 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.

Classification of short-term loans and credit facilities

- In June 2018, the Committee received a request asking about short-term loans and credit facilities that have a short contractual notice period, and the balance does not often fluctuate from being negative to positive to include in its statement of cash flows as a component of cash and cash equivalents. The Committee concluded that the entity does not include the short-term arrangements as components of cash and cash equivalents. This is because these short-term arrangements are not repayable on demand.

Appendix C – Agenda decisions published by IFRS Interpretations Committee

Effects of non-cash transactions

Supply chain financing arrangements—reverse factoring

- In December 2020, an agenda decision was published considering the impact of a reverse factoring arrangement on presentation in the balance sheet, the derecognition of a financial liability, presentation in the statement of cash flows and in the notes to the financial statements. The committee mainly noted:
 - the cash flows in a reverse factoring arrangement will typically be classified as either cash flows from operating activities or cash flows from financing activities; and
 - the classification of the liability in the statement of financial position may help in determining whether the associated cash flows are from operating or financing activities.

Disclosure of changes in liabilities arising from financing activities

- In December 2019, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate those changes. Accordingly, the Committee concluded that the disclosure requirements in paragraphs 44B–44E of IAS 7, together with requirements in IAS 1, are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7.

Thank you

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