IFRS Accounting

Meeting Summary

CMAC Meeting

Date **Friday 14 March 2025**
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This document summarises discussions at the meeting of the Capital Markets Advisory Committee (CMAC), a group of nominated members with extensive practical experience in analysing financial information and who are established commentators on accounting matters in their own right or through the representative bodies with which they are involved. The CMAC supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

CMAC members who attended the virtual meeting.

Region	**CMAC Members**
Asia-Oceania	Koei Otaki David Soh Kei-Tsuchiya Ge Xiaobo
Europe	Christopher Bamberry Meghan Clark Oliver Gottlieb Jacques de Greling Kenneth Lee Matthias Meitner Thomas Rahman Diego Salvador Tony Silverman Joao Toniato Larissa van Deventer Marcel Voogd
The Americas	Enitan Adebonojo Paulo Cezar Aragão Anthony Scilipoti Michael Thom

Statement of Cash Flows and Related Matters

1. The purpose of the session was to seek members' views on the IASB's initial research findings, initial analysis and next steps of the project on Statement of Cash Flows and Related Matters.

2. Having considered the initial research findings, most of the members generally agreed with the topics identified as a high priority for investors and acknowledged the interconnections identified between the topics on the statement of cash flows and related disclosures. Members identified three topics as having the highest potential benefits to investors and shared their experiences on the related issues:

   (a) disaggregation of cash flow information;

   (b) effects of non-cash transactions; and

   (c) information about commonly used cash flow measures.

   Disaggregation of cash flow information

3. Many members said that disaggregation of cash flow information is a priority issue. Some members said it is important for entities to provide cash flow information by segment and to disaggregate information on capital expenditure between growth and maintenance. Although one member suggested defining growth and maintenance capital expenditures, most other members raised concerns about the difficulty of creating a single definition that would work for all industries. Many members said allowing an entity's management to use judgement in deciding how to provide cash flow information about segments and capital expenditures would be useful. These members said that even if approaches vary between entities, the information would still be useful if an entity provides the information consistently in each reporting period and clearly explains any changes to that information.

4. A few members suggested entities would provide more insights by further disaggregating information on cash flows from discontinued operations and non-controlling interests, such as dividends.

Effects of non-cash transactions

5. Many members commented on entities providing more transparent information on non-cash effects of some transactions—for example, factoring of trade receivables, leases and share-based payments such as business acquisitions and disposals. Some members said that, sometimes, it is difficult to find the information on non-cash transactions. One member suggested having a separate section in the statement of cash flows where these transactions would be listed and referenced to the detailed notes and disclosures, enabling investors to easily access such information.

Information about commonly used cash flow measures

6. Some members mentioned the management-defined performance measures in IFRS 18 *Presentation and Disclosure in Financial Statements*. These members suggested that the IASB apply a similar approach to performance measures relating to the statement of cash flows, such as ‘free cash flow’.

7. Some members said it would be useful to have more transparency regarding an entity’s definition of, and judgements about, net debt. One member suggested introducing a standardised definition of net debt and requiring entities to give reasons if their own definitions differed. These members also said that it is important to understand the relationship between free cash flow definitions and net debt.

Other comments

8. One member said that the indirect method is useful for reporting operating cash flows because it provides a link to the other primary financial statements and gives investors more transparent information about changes in working capital. However, another member said that a lot of academic evidence shows the direct method provides useful information, acknowledging that most investors and preparers prefer the indirect method.

9. A few members expressed mixed views on whether financial institutions should be excluded from the scope of requirements for presenting a statement of cash flows. Although one member agreed with excluding specific financial institutions, another member emphasised the continued importance of cash flow statements. Others

noted that the complexity of excluding financial institutions from the scope of the requirements increases if such institutions have more than one business activity.

Next step

10. The IASB will consider feedback from CMAC members and other stakeholders in deciding the project plan.

Financial Instruments with Characteristics of Equity

1. The purpose of this session was to:
   (a) recap the proposals and feedback related to the presentation and disclosure sections in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED); and
   (b) seek members' views on:
      (i) the possible changes, in response to the feedback, to the proposed amendments related to presentation requirements in IAS 1 *Presentation of Financial Statements* and new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*; and
      (ii) the timing of the IASB issuing the amendments related to presentation requirements in IAS 1 and new disclosure requirements in IFRS 7.

Presentation of equity instruments

2. Most CMAC members agreed with Approach A, the IASB's preferred approach. This approach would require an entity to separately present profit or loss attributable to ordinary shareholders, other participating instrument holders, and non-participating instrument holders, in the statement of profit or loss.

3. CMAC members generally agreed that Approach A would provide clearer and more useful information for equity investors. A few CMAC members said that this approach serves as a good signalling function for investors, particularly in identifying complex equity structures in entities and prompting investors to take a closer look at the more complex instruments.

4. Some CMAC members pointed out the merit of aligning the proposed presentation approach with the requirements in IAS 33 *Earnings per Share*. These members noted that such alignment would enhance the understandability and consistency of financial information for investors.

5. A few CMAC members said they did not favour the revised ED approach (Approach C), which would require an entity to separately present profit or loss attributable to ordinary shareholders and other equity holders, in the statement of profit or loss. These members noted that this revised ED approach would mix equity instruments that have varied risk characteristics. These members also said this approach would make calculating enterprise value to equity value more difficult. A CMAC member emphasised the difficulty of ranking securities with varied risk characteristics, especially in default scenarios.

6. Some CMAC members raised concerns about an entity presenting profit attributable to complex financial instruments, such as income bonds, convertible preference shares and shares with repurchase agreements. These members suggested the IASB provide additional guidance or illustrative examples to help preparers respond to any complexities and improve consistency in entities applying the proposed presentation requirements.

7. A CMAC member strongly agreed with the approach proposed in the ED. This member therefore disagreed with Approach A and instead recommended that an entity be required to present attributable amounts separately not only in the statement of profit or loss, but also in the statement of financial position and the statement of changes in equity, at least for ordinary shares. This member said that such presentation would provide information for investors to use in their valuation analysis of ordinary shares and suggested the IASB require entities to disclose allocation assumptions and methods used. Another CMAC member, who agreed with Approach A, said it would be helpful if entities present distributions by type of equity instrument in the statement of changes in equity and in the financing section of the statement of cash flows.

Disclosures

Nature and priority of claims on liquidation (including terms and conditions about priority on liquidation)

8. Many CMAC members gave positive feedback on the proposed disclosure requirements. A CMAC member noted that the possible change to take the focus of the proposed requirements away from liquidation would still result in useful information for credit analysts. Despite that view, the member preferred information based on liquidation ranking, to help investors understand the relative positioning of particular financial instruments within an entity’s capital structure. The member acknowledged the difficulty of providing a comprehensive ranking.

9. Another CMAC member also mentioned that it would be helpful to disclose information about the nature and priority of claims based on management’s best understanding of the contractual terms at the time the financial statements are issued on a going concern basis. However, this member was concerned entities could structure transactions to evade disclosure requirements. The member also questioned whether the disclosures resulting from the proposed requirements would be future-proofed, considering the recent rise in private debt financing and embedded exotic options in lending transactions.

10. On the other hand, one member said that information about the nature and priority of claims would not be useful for equity analysts because they typically would not use the information in their research analyses. Another member disagreed with disclosing the information, because in their view, the information could mislead investors and give them a false sense of security. Investors could be misled because the disclosures do not provide information beyond the contractual terms about the ultimate consequences of acquiring particular instruments. In the member’s experience, when regulatory authorities intervene, they consider various qualitative factors to determine priority. For example, authorities consider which entity is marketing or selling the instruments (which could be different from the issuing entity) and the manner in which those instruments have been sold. This information is not typically stipulated in the contracts or legal documentation.

11. Some CMAC members suggested the IASB enhance the usefulness and timeliness of the disclosures and improve transparency by requiring entities to disclose information to help investors understand the factors or circumstances that could change the contractual priority of financial instruments. The suggestions from CMAC members included, for example, requiring disclosure of information about:
    (a) the effect of laws and regulations;
    (b) intercompany guarantees in the private equity industry;
    (c) subsidiary assets pledged as collateral for hybrid bonds issued by the parent company; and
    (d) debt covenant triggers that could have a dilutive effect.

Potential dilution of ordinary shares

12. CMAC members generally gave positive feedback about the proposed disclosure requirements. A CMAC member was strongly in favour of this disclosure, mentioning that the maximum dilution table would provide a good overview of the magnitude of possible dilution and the reasons for dilution. This information would help investors understand why the number of shares increases over time, as has been observed historically in S&P 500 companies. The member suggested the proposed disclosure requirements could either be added to IAS 33 or included in the project on Financial Instruments with Characteristics of Equity.

13. A few members were concerned that disclosing share buy-back arrangements could be subject to manipulation if ‘commitment to buy shares’ is not defined. These members were concerned because those arrangements could be subjective and uncertain unless accompanied by a clear explanation of how the entity plans to achieve them.

Timing of issuing the amendments

14. CMAC members did not specifically comment on the timing of the amendments. However, a member mentioned that the group would probably agree that expediting the issuance of the amendments related to presentation requirements in IAS 1 and new disclosure requirements in IFRS 7 is unnecessary.

Next steps

15. The IASB will consider the feedback from CMAC members before making decisions on the proposed presentation and disclosure requirements.