
Global Preparers Forum

Date	March 2025
Project	Statement of Cash Flows and Related Matters
Topic	Initial Research Findings
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Purpose of this session

- Provide a summary of the initial research findings in the project on Statement of Cash Flows and Related Matters
- Discuss initial analysis and next steps for the project in the light of the findings

Questions for GPF members

1. Do you have any questions or comments on the findings from our initial research?
 2. Considering the initial research findings, to help the IASB consider the next steps in the project:
 - a) do you agree with the topics identified as high priority for preparers?
 - b) do you think there are any detailed topics we have missed (see possible detailed topics in slides 10–16)?
 - c) are there topics you think would benefit from being assessed together because of their interconnected nature?
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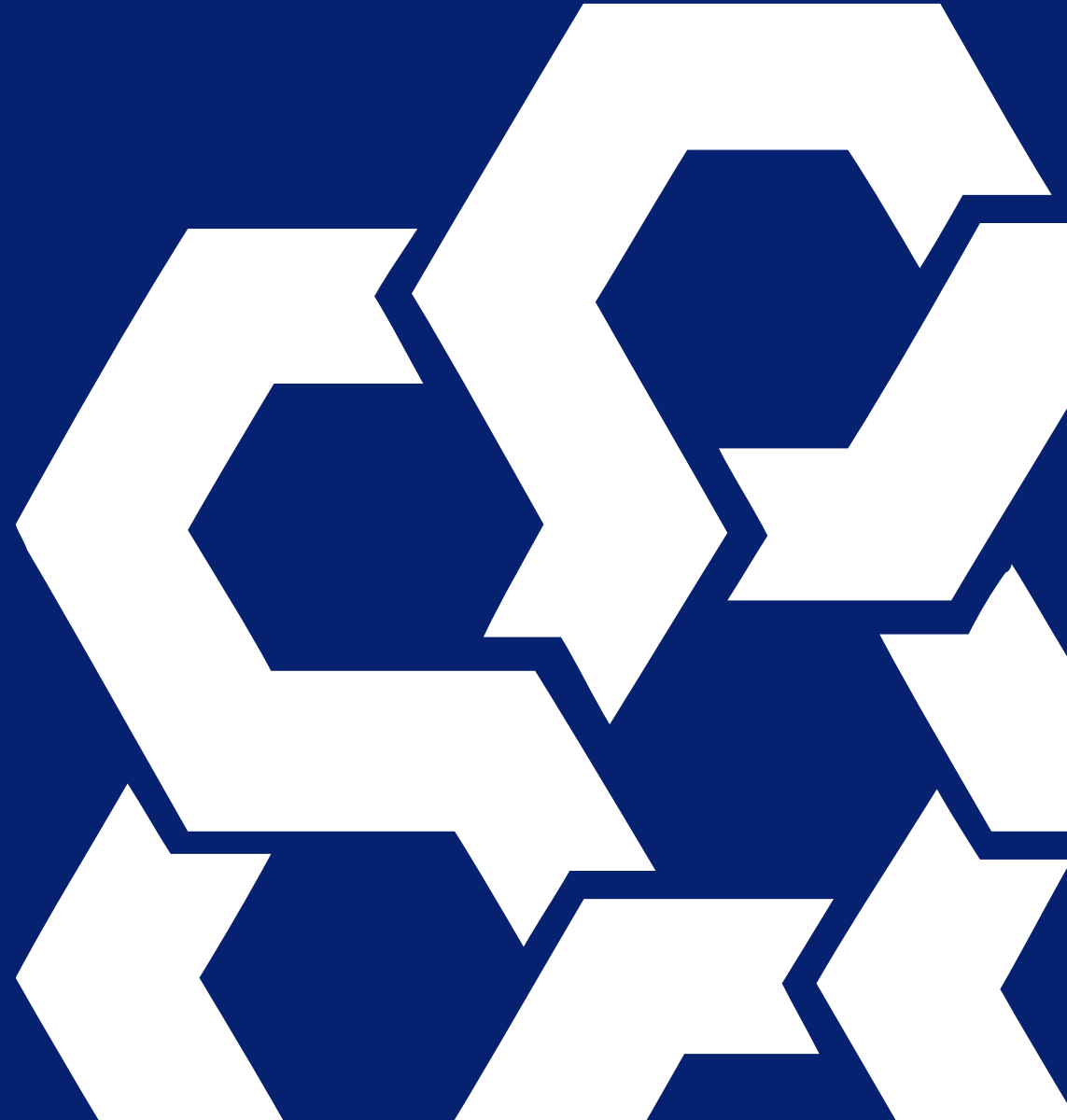
Information for GPF members

Background	5
Initial research findings	6–16
Initial analysis and next steps	17–23
Questions for GPF members	24

Background

- At the [November 2024](#) GPF meeting, as part of initial research on the project, we discussed individual topics related to the statement of cash flows to gather evidence on the nature and extent of perceived deficiencies in current reporting
- We also conducted follow up interviews with some GPF members to discuss the topics in more detail
- We have now completed our initial research and will report the overall findings to the IASB at its March 2025 meeting (see [March 2025 Agenda Papers 20A–20D](#))
- After considering the initial research the IASB will decide next steps for the project

Initial research findings



Planned initial research activities

- The objective of the initial research was to gather evidence of **the nature and extent** of the perceived deficiencies related to the topics identified in the agenda consultation and confirmed by the academic literature review related to the statement of cash flows (SCF)
- We have **not yet assessed the feasibility** of standard setting for each possible topic
- Initial research included:
 - Consultative group meetings
 - A desktop analysis of a sample financial statements evaluating current practice
 - Individual stakeholder meetings
 - Review of National Standard Setters' (NSS) related projects
 - A review of previous IASB projects, existing IFRS Accounting Standards and guidance issued by the large accounting firms

Overall initial research findings

- **Feedback confirmed the list of topics initially identified** and we obtained a more detailed understanding of each topic (findings by topic are summarised in slides 10–16)
- Matters highlighted by investors included non-cash transactions and disaggregation
- Matters highlighted by preparers, auditors, regulators and National Standard Setters included application guidance on classification and cash equivalents
- Both investors and preparers use a ‘free cash flow’ type measure, though specific definitions vary
- Statement of cash flows for financial institutions has limited use

Topics of initial research

The following slides 10–16 summarise findings from initial research by topic

The Key topics include:

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

1. Classification

Key research findings

- Most users and preparers classify cash flows differently from IAS 7 for their analyses, usually based around a version of free cash flow, but still find the IAS 7 classification useful
- Most users use specific line items to form their own views of operating and free cash flows
- Some seek alignment to categories in IFRS 18
- Many preparers, firms and regulators find definitions of categories challenging to apply for some transactions and identify frequent errors
- Review of financial statements shows diversity in classification is often not visible

Possible detailed topics

- **Definitions of categories and subtotals (including alignment with IFRS 18)**
- **Consistent application of categories**



Interconnections

- **Classification and disaggregation** affect the relationship between **free cash flow** and the SCF
- The **definition of cash equivalents** affects the structure of the SCF and the line items presented

2. Disaggregation

Key research findings

- Many users say more disaggregation would be useful for specific items (e.g. growth versus maintenance capex, segmental cash flows, effects of business combinations, working capital)
- However, some preparers identify challenges with disaggregating some items (e.g. growth versus maintenance highly judgemental, group cash flows difficult to allocate to segments, non-cash element of working capital a challenge)
- There is interaction with existing guidance, other standards and ongoing projects
- A few preparers seek more guidance on aggregating cash flow information

Possible detailed topics

- **Specific information users seek that is often not disaggregated**



Interconnections

- Some users seek **disaggregated** information about **non-cash** changes to some assets and liabilities reflected in items presented in the SCF (e.g. non-cash movements in working capital)

3. Cash and cash equivalents definition

Key research findings

- Many preparers, firms and regulators find the definition of cash equivalents challenging to apply and seek more application guidance
- Some preparers (especially in specific jurisdictions) seek more alignment of cash equivalents with investments used internally for cash management
- However, most users prefer a definition closer to cash and do not raise issues with cash equivalents
- Some stakeholders question whether the statement should reconcile to cash or something else (e.g. net debt)

Possible detailed topics

- **Definition of cash equivalents/objective of the statement of cash flows**
- **Consistent application**



Interconnections

- The **definition of cash equivalents** affects the structure of the SCF and the line items presented
- The **definition of cash equivalents** affects the scope of **non-cash** transactions

4. Non-cash effects of some transactions

Key research findings

- Many users said information about non-cash transactions was important for understanding movements in working capital and operating cash flows but can be difficult to locate (e.g. effects of leases, acquisitions and factoring)
- Preparers said there are some limitations on the availability of some information about the non-cash effects of some transactions (e.g. difficult to identify non-cash changes in some working capital items)
- Some said more guidance on agency relationships would be helpful

Possible detailed topics

- **Information about non-cash changes to assets and liabilities**
- **Improved accessibility of disclosures about non-cash transactions**



Interconnections

- The **definition of cash equivalents** affects **non-cash** transactions scope
- A few said sufficient information about **non-cash** changes, for example **disaggregation** of working capital would provide **direct method** information

5. Method of reporting operating cash flows

Key research findings

- Many users and preparers said they use the indirect method, and many preparers expressed concerns over the cost or complexity of change
- Some users said information using the direct method is useful, particularly for some items because it provides more accurate information about earnings quality they otherwise must deduce and is more transparent
- Most preparers that use the direct method also disclose information using the indirect method
- IFRS 18 principles of useful structured summary raise a question over the choice of method

Possible detailed topics

- **Specific direct method information that might provide sufficient benefits**
- **Guidance on deciding method**



Interconnections

- A few said sufficient information about **non-cash** changes, for example **disaggregation** of working capital would provide **direct method** information

6. Information about common cash flow measures

Key research findings

- Most users construct a FCF measure, some users' adjustments consist of non-cash transactions (e.g. share based payments)
- Many preparers also manage cash internally using a similar FCF measure view
- Both users and preparers said having a standardised subtotal that could act as a starting point to reconcile FCF would help provide transparent information about FCF and allow users to make their own calculations
- Some said it would be useful to have disclosure requirements similar to MPMs in IFRS 18 for cash flow measures

Possible detailed topics

- **Requirements similar to MPMs for cash flow measures**
- **Possible additional subtotals in the statement of cash flows**



Interconnections

- **Classification and disaggregation** affect the relationship between **free cash flow** and the SCF
- FCF adjustments sometimes include **non-cash** transactions

7. Statement of cash flows for financial institutions

Key research findings

- Most said the statement of cash flows has limited usefulness and useful information is mostly related to financing activities
- Some said the statement of cash flows has no usefulness for financial institutions and suggested the IASB consider exempting such entities from preparing the statement
- A few suggested replacing the statement of cash flows with an alternative
- A few suggested supplementary disclosures that might enhance the usefulness of the statement of cash flows for financial institutions

Possible detailed topics

- **Potential for changes to classification, disaggregation or disclosure to improve usefulness for financial institutions**
- **Potential to scope out some entities**



Interconnections

- Broad connection to all topics as any improvements to the statement of cash flows for other entities might improve the usefulness for financial institutions

Initial analysis and next steps



Initial analysis of findings

No topics ruled out

We think feedback suggests the project should explore the feasibility and the extent of possible benefits of resolving the possible reporting deficiencies in each of the research topics

Some topics might require small changes

Considering the individual questions that arose we think some of the topics might involve issues that could be resolved by small changes without looking at the Standard holistically. For example, focusing on the individual topics or resolving only specific questions

But others might require more significant change

Given the total number of topics identified, the connections between some of them, and the potential for complexity, we think the IASB might need to consider more significant changes to fully resolve some possible reporting deficiencies

Some differing priorities

There are some topics that are higher priority for some stakeholder groups than others. For example, the definition of cash equivalents is a high priority for many preparers, accounting firms, and NSS but is not a priority for users. It is also an area where some seek fundamental change while others seek only clarifying guidance

Balance of timing, satisfactory resolution and disruption

There is feedback that the project should move quickly to resolve ‘quick wins’, however the IASB will need to carefully consider the balance between timing, sufficiently resolving the possible reporting deficiencies and minimising disruption

Next steps

- The IASB will discuss the project plan in May including:
 - which of the detailed topics identified in the initial research the IASB should assess for feasibility and extent of possible benefits of resolving related issues; and
 - how possible approaches to the order of the assessment might balance various stakeholder priorities, potential complexities of solutions, and the result on the possible length of the project
- As part of that assessment the IASB will consider interaction with other active projects (e.g. PIR Leases, Business Combinations – Disclosures Goodwill and Impairment, Intangible Assets)

Key factors to consider in deciding project plan

Stakeholder priorities

Considering how to best meet user information needs while considering the needs of the other stakeholders

Potential complexity of solutions

Understanding the potential for complexity will help assess which approaches might be more efficient, for example:

- approaches to one topic might affect the approach on another topic and there might be approaches that resolve connected problems;
- change management for some possible approaches might be more challenging; or
- some approaches might involve greater technical challenges

Applying the key factors

- The factors are not intended to result in a definitive ranking of topics but rather to give the IASB information needed to assess the next steps in the project. For example:
 - Information about non-cash transactions is a high priority for investors but some preparers identified potential limitations to available information. Defining the scope of non-cash transactions might be technically complex, and additional requirements would interact with other topics (e.g. cash equivalents definition). Developing guidance to make existing disclosures more accessible might be less complex. The extent of the potential complexity and the information sufficient to meet stakeholder needs is unknown until such approaches are explored.
 - Feedback on common cash flow measures (e.g. free cash flow) is generally aligned towards building on the guidance for MPMs in IFRS 18, an approach that is not expected to be complex nor highly connected to other topics.
- Based on the assessment of the factors the IASB could decide whether it is more efficient to first explore the feasibility and benefits of solutions for topics with a higher potential complexity to resolve these uncertainties, or to make early progress by first exploring those with more aligned stakeholder priorities and less potential for complexity.

Initial assessment using factors (1/2)

Topic	Detailed topics identified in findings	Investor priority	Preparer & others priority	Potential complexity
Classification (see slide 10)	Definitions of categories and subtotals		✓	High
	Consistent application of categories		✓	Low
Disaggregation (see slide 11)	Specific information users seek that is often not disaggregated	✓		Moderate
Cash equivalents (see slide 12)	Definition of cash equivalents/objective of the statement of cash flows		✓	High
	Consistent application of definition		✓	Low
Non-cash (see slide 13)	Non-cash transactions economically similar to cash transactions	✓		High
	Improved accessibility of currently disclosed non-cash information	✓		Low

Initial assessment using factors (2/2)

Topic	Detailed topics identified in findings	Investor priority	Preparer & others priority	Potential complexity
Presentation method (see slide 14)	Specific direct method information that might provide sufficient benefits			Moderate
	Guidance on deciding method			Low
Common cash flow measures (see slide 15)	Requirements similar to MPMs for cash flow measures	✓	✓	Low
	Possible additional subtotals in the statement of cash flows	✓	✓	Moderate
Financial Institutions (see slide 16)	Potential for changes to classification, disaggregation or disclosure to improve usefulness for financial institutions			Moderate
	Potential for scope out for some entities			High

Questions for GPF members

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