Staff paper

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Project	**Statement of Cash Flows and Related Matters**
Topic	**Outreach feedback**
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Objective

1. The objective of this agenda paper is to provide the International Accounting Standards Board (IASB) with a summary of the feedback received from our initial outreach activities between June 2024 and January 2025.

2. In this paper, we do not ask the IASB to make any decisions but invite you to ask questions and make comments on the feedback from our initial research activities.

Structure of this paper

3. We summarise the feedback from outreach meetings by the seven research topics listed in paragraph 5 of the cover paper:
   - (a) requirements for classifying cash flows (paragraphs 6–20);
   - (b) aggregation and disaggregation of cash flow information (paragraphs 21–46)
   - (c) definitions of cash and cash equivalents (paragraphs 47–60);
   - (d) effects of non-cash transactions (paragraphs 61–69);

(e) method of reporting operating cash flows (paragraphs 70–79);

(f) information about commonly used cash-flow measures (paragraphs 80–85); and

(g) statement of cash flows for financial institutions (paragraphs 86–93).

4. We include our questions to the IASB on page 25.

5. In Appendix A we summarise information about the outreach meetings conducted.

Requirements for classifying cash flows

6. Paragraph 10 of IAS 7 *Statement of Cash Flows* requires that cash flows during the period be reported and classified as operating, investing and financing activities in the statement of cash flows. Overall, we did not hear a call for fundamental changes to the operating, investing and financing categories of the statement of cash flows.

7. We group comments from stakeholders about the requirements for classifying cash flows using the following sub-topics:

(a) classification for cash flow analyses (paragraphs 9–12);

(b) consistent application of classification requirements (paragraphs 13–17);

(c) alignment with classification requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* (paragraphs 18–20).

8. We already noted sub-topic (c) in September 2024. The others we identified through our outreach.

Classification for cash flow analyses

9. We understand users of financial statements (investors) make some adjustments to how they classify cash flows for their own cash flow analyses. However, investors did not ask that the requirements for classifying cash flows to align with their needs. For example, they did not ask that cash flows from operating activities align with a cash flow measure, like Free Cash Flow (FCF).

10. Investors instead asked for enhanced transparency of how items, like payments under post-employment plans, are classified in the statement of cash flows. Such transparency would enable them to make their own adjustments.

11. Preparers also adjust the classification of cash flows to reflect how they manage cash. They might, for example, distinguish between operating cash flows and non-operating cash flows—operating cash flows are changes in the cash managed by operating divisions and non-operating cash flows are changes in cash manged by a central treasury function. Such adjustments facilitate the entity's internal cash management processes and internal decision making.

12. Common transactions that investors and preparers adjust for are:

    (a) lease payments—preparers might internally classify lease payments within operating activities instead of within financing activities as required by IFRS 16 *Leases*. Investors said that classifying lease payments within financing activities in accordance with IFRS 16 leads to a lack of information about capital expenditure.

    (b) research and development expenditure—preparers might internally classify a portion of research and development expenditure within investing activities even though the expenditure did not result in a recognised asset in the statement of financial position.

    (c) settlement of contingent consideration—preparers might internally classify the settlement of contingent consideration within investing activities.

    (d) payments that arise from post-employment benefit plans—preparers might classify the 'interest' portion of the payment within financing activities and the remainder of the payment within operating activities.

    (e) tax payments—investors and preparers might exclude for their own purposes tax payments from cash flows from operating activities.

Consistent application of classification requirements

13. We heard from preparers, accounting firms and regulators about perceived diversity in how entities classify cash flows from some transactions in accordance with IAS 7.

Most accounting firms and regulators said, in their experience, they find ‘basic’ errors with how entities classify cash flows. One investor also said they are concerned that with the current requirements entities might be able to manipulate cash flow information by adjusting how they classify some cash flows.

14. Feedback suggests that a possible reason for perceived diversity or errors is a lack of guidance about how to classify cash flows from particular transactions. However, auditors said that the frequent errors might rather be due the lack of time and focus on the statement of cash flows compared to the other primary financial statements. In their view, the statement of cash flows is prepared last, within the minimal time available to meet reporting deadlines. This is because the statement of financial position needs to be finalised in order for entities to prepare the statement of cash flows.

15. We understand from all types of stakeholders, although in varied frequency, that additional guidance might be needed for, for example, classifying cash flows from: (in alphabetical order)

    (a) cash held for sale;

    (b) contingent consideration;

    (c) deferred consideration;

    (d) derivatives and hedge accounting transactions;

    (e) discontinued operations;

    (f) financing provided to customers;

    (g) foreign exchange differences;

    (h) government grants related to assets; and

    (i) shares withheld on employee share options.

16. Some stakeholders, including a regulator, asked for clarity about the existing two-fold definition of operating activities—that is, principal revenue-producing activities of the entity, a ‘positive definition’ and other activities that are not investing or financing activities a ‘default category’.

17. Accounting firms and auditors said that it would be useful to require disclosures about the accounting policies applied and various judgements made in relation to classifying cash flows.

Alignment with classification requirements in IFRS 18

18. IFRS 18 introduces five categories in the statement of profit or loss: operating, investing, financing, income taxes and discontinued operations. Although the titles of the categories in the statement of profit or loss of operating, investing and financing are the same as those in the statement of cash flows, their definitions are not aligned. This means:

    (a) the statement of profit or loss includes some categories not included in the statement of cash flows; and

    (b) the classification of income and expenses in the statement of profit or loss are not always aligned with the classification of the related cash flows in the statement of cash flows.

19. We heard mixed views about whether alignment between these two statements is required. Some investors said that that as long as the financial statements include sufficient details about how cash flows are classified, they are able to make their own adjustments to facilitate their analyses. Other investors said aligning the classification of investments in associates and joint ventures, income taxes and discontinued operations would be useful.

20. We heard stronger support for alignment from regulators, a few preparers and members of the IFRS Interpretations Committee (Interpretations Committee). One preparer explained that misalignment is hard to explain to executive management. However, two preparers said they do not require alignment for internal purposes—they address differences by sorting accounts into different sub-sections. Another preparer also said that even though alignment might bring the statement of cash flows closer to their internal cash flow analyses, the differences are not significant for them.

Aggregation and disaggregation of cash flow information

21. We summarise feedback about aggregation and disaggregation of cash flow information by the following sub-topics. We order these sub-topics by the frequency they were commented on by the investors we spoke to:

    (a) capital expenditures (paragraphs 24–30);

    (b) cash flow information by reportable segment (paragraphs 31–35);

    (c) composition of working capital (paragraphs 36–40);

    (d) disaggregation of information about dividends received and paid (paragraphs 41–42);

    (e) cash flows from discontinued operations (paragraphs 43–44);

    (f) offsetting and aggregation (paragraphs 45–46).

22. We previously reported in September 2024 the sub-topics listed in (a), (c) and (e) because they were identified through the Third Agenda Consultation. We identified the sub-topics in (b), (d) and (f) through stakeholder outreach.

23. Stakeholders' comments about disaggregated information refer to their experience with effective IFRS Accounting Standards. Stakeholders' comments do not consider possible financial reporting changes that might occur when IFRS 18 becomes effective on 1 January 2027 (a point acknowledged by some during our outreach). IFRS 18 includes new requirements for the aggregation and disaggregation of information that apply throughout the financial statements, including in the statement of cash flows. These are general requirements, and we observed that the stakeholders we spoke to are not yet confident about how these requirements will affect disaggregation of information in the statement of cash flows and related disclosures.

Capital expenditures

24. Paragraph 50(c) of IAS 7 encourages entities to disclose the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity as additional information that may be relevant to investors in understanding the financial position and liquidity of an entity.

25. In our outreach, both investors and preparers commented that entities do not often disaggregate capital expenditure between growth and maintenance. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting is consistent with this observation.)

26. We understand that the reason for this is because entities often find it difficult to define cash flows for growth expenditures and maintenance expenditures. Some investors and preparers said that varying levels of capital expenditure in different industries and the inability to capitalise some capital expenditure—such as research and development costs—limit the usefulness of a split between growth and maintenance. Making such a distinction is often highly judgemental and entity specific. For example, in many cases the additions of capital will comprise elements of both growth and maintenance. Making such a distinction is also becoming increasingly difficult considering entity's decarbonisation efforts. Some entities might have an internal definition, however, these definitions vary due to the nature of the different businesses.

27. Investors said that disaggregating information on capital expenditure between growth and maintenance would be useful. However, they also said that it would be difficult to develop commonly agreed definitions of 'capital expenditure for growth' and 'capital expenditure for maintenance'. Some investors said that without such agreed definitions it would be harder to compare entities, and the information might not be useful because of the judgments involved in making the distinction. However, some other investors said it might be more useful to have supplemental disclosures on disaggregated cash flow information with how an entity defines growth and maintenance which enables investors to perform their own analysis and would provide them with useful insights.

28. Our outreach confirms that investors use information about capital expenditure disaggregated between growth and maintenance to, for example, assess management's stewardship of cash resources, calculate their measure of FCF or include in their sensitivity analysis of cash flow forecasts. In the absence of such information, investors that want to make use of the information often use a proxy to estimate growth and maintenance activities (for example, inflation-adjusted depreciation).

29. We understand that investors might also find helpful disaggregating cash flows related to capital expenditure further between those that relate to fixed assets and those that relate to intangible assets.

30. In the absence of an entity-specific definition, an entity might provide additional disclosures, or links to related information, such as capital commitments[1]. For example, entities could disclose cash payments related to specific projects or asset classes or information about cash flows for immediate and long-term research and development. Alternatively, an entity could disclose the amount spent on improving capacity of a business (new expansions) that would be a proxy for growth (and the remainder maintenance).

Cash flow information by reportable segment

31. Paragraph 50(d) of IAS 7 encourages entities to disclose the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment as additional information that may be relevant to investors in understanding the financial position and liquidity of an entity.

32. In our outreach, investors and preparers commented that entities often do not provide this information even though this disclosure is encouraged in IAS 7. There might be instances where an entity provides cash flow information by segment outside its financial statements because that information is not subject to the requirements of IAS 7. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting revealed that a few entities provided disaggregated information on cash flows by their reportable segments with the type of information provided being varied.)

33. We understand that the reason why entities might not disclose this information is because they find it difficult to allocate some cash flows by segment applying the classification requirements of IAS 7. For example, it might be challenging to allocate to reportable segments expenses like tax that are attributable to the group.

[1] For example, paragraph 74(c) of IAS 16 *Property, Plant and Equipment* requires an entity to disclose the amount of contractual commitments for the acquisition of property, plant and equipment. Similarly, paragraph 122(e) of IAS 38 *Intangible Assets* requires disclosure of the amount of contractual commitments for the acquisition of intangible assets.

34. We also understand that cash flow information by reportable segment is important to investors because it would enable them to better understand the segmental performance, particularly in diversified entities. Disaggregating capital expenditure by reportable segment also indicates the level of investment into an entity's different businesses.

35. Some stakeholders suggested requiring disclosure of cash flow information by segment for operating cash flows excluding the cash flow items that are difficult to allocate to the segments (such as income taxes). Another approach we heard about was for the IASB to perform a more comprehensive review of segment reporting in a separate project instead of considering segmental cash flow information as part of this project.

Composition of working capital

36. Reporting cash flows from operating activities, paragraphs 19–20 of IAS 7 refer to 'changes during the period in inventories and operating receivables and payables.' IAS 7 does not include additional presentation or disclosure requirements related to these changes.

37. Entities that use the indirect method to present cash flows from operating activities often refer to 'changes during the period in inventories and operating receivables and payables' as 'changes in working capital'. However, entities sometimes include within 'changes in working capital' changes in other current assets and liabilities. Our outreach identified entities often differ in the detail they provide regarding which assets and liabilities they include in 'changes in working capital'. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting revealed that entities typically disclose changes in trade receivables, inventories and trade payables.)

38. Our outreach identified some possible items for which investors might require disaggregated information to provide more transparency on the composition of an entity's 'changes in working capital'. Examples include:

    (a) payables for share-based payments;

(b) contract liabilities from contracts with customers;

(c) receivables or payables arising from commodity contracts; and

(d) Value Added Tax (VAT) receivables.

39. A few investors said that more transparent information is required to understand the impact on the changes in the assets and liabilities included in working capital arising from mergers and acquisitions. For example, information about changes in inventories resulting from business combinations. These observations interact with comments about the effect of non-cash changes of the assets and liabilities included in working capital. See ‘Information about non-cash changes in assets and liabilities’ (paragraphs 64–66) for more details.

40. Some investors suggested the IASB to require entities to explain the composition of working capital. Neither investors nor preparers identified practical concerns that might prevent entities from separating changes in working capital into its component parts—that is, disclosing the assets and liabilities in the statement of financial position that are included in changes in working capital. (This feedback differs from what we heard about entity’s ability to disclose non-cash changes in the carrying amounts of the net assets that make up working capital. As noted above, we discuss this feedback in the section ‘Information about non-cash changes in assets and liabilities’ (paragraphs 64–66).)

Disaggregation of information about dividends received and paid

41. Paragraph 31 of IAS 7 requires cash flows from dividends received and paid be disclosed separately. However, IAS 7 does not require as a specific disclosure requirement for further disaggregation of these amounts. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting revealed diversity in whether, or if so which of, these items were disclosed.)

42. Our outreach identified that investors might find useful information about dividends received and paid. We understand that this information would enable investors to understand the financial performance of an entity and in performing various forecasts and valuations. Although there are existing requirements for some of this information,

such as in IFRS 12 *Disclosure of Interest in Other Entities*[2], some investors said they do not always get information about:

(a) dividends received disaggregated between those from associates and joint ventures and those from other investments; and

(b) dividends paid disaggregated between those paid to owners of the parent and those paid to non-controlling interests of subsidiaries.

Cash flows from discontinued operations

43. Paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires entities to provide the net cash flows attributable to the operating, investing and financing activities of discontinued operations. This information can be presented in the statement of cash flows or disclosed in the notes. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting revealed diversity in what additional cash flow information entities provide about discontinued operations.)

44. We understand that investors might find it useful if an entity disaggregated the net cash flows from operating, investing and financing activities as opposed to only disclosing the net cash flows for each activity. This information would enable them to better understand the effect of the discontinued operation on an entity's future cash flows.

Offsetting and aggregation

45. Paragraphs 22–24 of IAS 7 permits cash flows to be reported on a net basis but only under specified, and limited, circumstances. We understand that investors might find it useful if some types of cash flows classified within investing and financing activities are reported net. For example, an entity might hold a large volume of government bonds that roll over. The gross receipts and payments that are reported

[2] Paragraph B10 of IFRS 12 *Disclosure of Interest in Other Entities* requires entities to disclose, for each subsidiary that has non-controlling interests that are material to the reporting entity, dividends paid to non-controlling interests. Paragraph B12 of that Standard requires entities to disclose, for each joint venture and associate that is material to the reporting entity, dividends received from the joint venture or associate.

annually are substantial or vary substantially but the net amount remains consistent from year-to-year. Investors might find the net cash flow arising from the bonds more useful. One investor suggested a subtotal of the net cash flows might address this concern.

46. Also, we understand that preparers might find additional guidance helpful on when to offset or aggregate line items in the statement of cash flows. Preparers sometimes find there are too many line items on the face of the statement of cash flows.

Definitions of cash and cash equivalents

47. The feedback we received on the definitions of cash and cash equivalents can be categorised using the following sub-topics:

(a) continued relevance of the definitions of cash and cash equivalents (paragraphs 48–56);

(b) consistent application (paragraphs 57–59); and

(c) additional disclosures on restricted cash (paragraph 60).

Continued relevance of the definitions of cash and cash equivalents

General

48. Most stakeholders including preparers, regulators, accounting firms and members of the Interpretations Committee highlighted concerns with the existing definitions of cash and cash equivalents. They mentioned:

(a) new digitalized modes of payments such as crypto currencies—stakeholders asked whether crypto currencies could be considered as cash and cash equivalents. However, few investors said that crypto currencies might not be considered (or think it would be hard to include) within the definitions of cash or cash equivalents[3].

(b) using the maturity basis of 90 days to define cash equivalents. See the 'cash equivalents' sub-section below.

49. A few investors commented on the definitions of cash and cash equivalents. They said it is more important to have consistency when applying the definitions than what the definition is. Investors might also focus on net debt rather than on cash and cash equivalents. Therefore, whether an investment is classified as a cash equivalent might not have much impact on these investors' analyses. (Stakeholder feedback on net debt relevant to the topic of 'Information about commonly used cash flow measures' is noted in paragraph 85.)

Cash

50. Reflecting on the Interpretations Committee's Agenda Decision *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party*, one preparer suggested that they think 'cash', by definition, needs to be available for immediate use.

51. Accounting firms, members of the Interpretations Committee and a regulator said that IAS 7 lacks requirements that enable entities to assess whether some transactions give rise to cash flows. Investors also said they experience diversity in how entities account for these transactions. Examples of transactions stakeholders mentioned are:

(a) supplier finance arrangements or other transactions that involve another entity receiving or paying cash on the entity's behalf; and

(b) modernised payment systems and cash management arrangements.[4]

52. Feedback about whether transactions give rise to cash flows interacts with feedback about non-cash changes in assets and liabilities because whether a cash flow occurs

[3] In June 2019, the IFRS Interpretations Committee published the agenda decision Holdings of cryptocurrencies. The Committee concluded 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 to holdings of cryptocurrencies. The Committee observed that crypto currencies do not satisfy the definition of cash in IAS 7 *Statement of Cash Flows*.

[4] In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7) that includes new requirements for cash payments made using an electronic payment system.

determines whether changes in assets and liabilities are, in fact, non-cash changes or not. See ‘Information about non-cash changes in assets and liabilities’ in paragraphs 64–66 for additional information.

Cash equivalents

53. Paragraph 6 of IAS 7 defines cash equivalents as ‘short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value’. Paragraph 7 of IAS 7 states that an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. IAS 7 does not provide additional guidance on the determination of whether an item meets the definition of cash equivalents.

54. We understand that preparers might internally classify some investments as cash equivalents that would not satisfy the definition in IAS 7 because these investments are used as part of its cash management activities. For example, in high interest-rate environments, entities might use ‘cash-like’ investments to purchase inventory, pay suppliers or accept payments.

55. Some preparers said that their internal reporting definition of cash equivalents include investments with maturities of more than 90 days, and the entire investment portfolio is classified as cash and cash equivalents. They said it would be useful to have a closer alignment between the definitions used for internal and external reporting because it might reduce costs.

56. However, feedback suggests it would still be important to have specific definitions for cash and cash equivalents because:

    (a) required information regarding non-cash items might not be present in the statement of cash flows.

    (b) it might vary the cash flows resulting from different categories in the statement of cash flows such as cash flows from operating activities, specifically during adverse economic conditions such as high inflation rates and less liquidity situations.

Consistent application

57. Many preparers, auditors, regulators and members of the Interpretations Committee said that they observe diversity applying the definitions of cash and cash equivalents to different instruments and forms of payment. For example, credit card receivables, cheques, cash in transit, demand deposits, and investments in money market funds.

58. Many of these stakeholders said that these challenges and diversity result specifically from the different interpretations of the maturity basis of 90 days in defining cash equivalents. There appears to be uncertainty about whether the maturity basis is an example to consider or whether it restricts classifying certain investments as cash equivalents. Some suggested the IASB might replace the maturity date with more application guidance about what constitutes cash equivalents.

59. Many also said that more application guidance would be useful to understand how to apply the other aspects of the definition of cash equivalents. However, one preparer said that even though some application difficulties exist, the current requirements are clear.

Additional disclosures on restricted cash

60. We understand that investors might want to understand better any restrictions on an entity's ability to access cash. For example, restrictions applicable to a parent to access the cash of its subsidiary. One investor and members of the Interpretations Committee suggested additional disclosure requirements might be useful.[5]

Effects of non-cash transactions

61. IAS 7 requires an entity to disclose investing and financing transactions that do not require the use of cash or cash equivalents (non-cash transactions) in its financial statements in a way that provides all relevant information about these activities.[6]

[5] Paragraph 48 of IAS 7 requires an entity to disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

[6] Paragraphs 44B (changes in liabilities arising from financing activities) and 44H(c) (supplier finance arrangements) of IAS 7 include specific disclosure requirements for non-cash transactions, like business combinations, exchange differences, changes in fair value and losing control of subsidiaries.

62. Stakeholders commented on perceived deficiencies in identifying, presenting and disclosing non-cash transactions. A professional accounting body said that the effects of non-cash transactions would be a key issue for this project to address.

63. We identified two sub-topics related to the non-cash effects of transactions:

(a) information about non-cash changes in assets and liabilities—including changes arising from the reclassification of amounts in the statement of financial position (paragraphs 64–66); and

(b) improved accessibility of information disclosed about non-cash transactions (paragraphs 67–69).

Information about non-cash changes in assets and liabilities

64. Investors might have different uses for information about non-cash changes in assets and liabilities. For example:

(a) adjusting the changes in the carrying amounts of assets and liabilities—for example those that make up changes in working capital—for non-cash changes to estimate FCF or 'sustainable operating cash flow'. (As noted, these comments interact with those in the paragraphs 39–40 of 'Composition of working capital')

(b) understanding changes in liabilities arising from financing activities—investors said they experience perceived poor compliance with the requirements in paragraphs 44A–44E of IAS 7. (Our preliminary analysis of financial statements summarised in Agenda Paper 20C of this meeting shows that 24 out of 25 entities disclosed the change in liabilities arising from financing activities using a reconciliation table which includes disaggregated information about non-cash changes in the liabilities.)

(c) comparing the non-cash changes of some transactions to 'economically similar' cash transactions. For example, investors might compare a non-cash transaction of:

(i) a bank settling directly with the entity's supplier the amounts owed of an acquired asset with a cash transaction of the entity receiving cash from a bank and the entity paying cash to the supplier; and

(ii) acquisition of an asset or business in exchange for own shares with a cash transaction of an entity receiving cash for issuing shares and then paying to acquire an asset.

65. For paragraphs 64(a)–(b), investors might find it difficult to reconcile the statement of financial position to the statement of cash flows because of non-cash effects of some transactions. These include leases, supplier finance arrangements and the factoring of trade receivables[7]. One investor stressed this is particularly true for financial institutions, like insurers (*Insurance Contracts*). Members of the Interpretations Committee also said that without proper disclosure of non-cash transactions it becomes harder to reconcile the primary financial statements. We heard suggestions to require entities to disclose reconciliations of changes in the line items (or specified line items) in the statement of financial position, including changes due to non-cash transactions.

66. In relation to paragraph 64(c), we heard mixed views from investors about whether the information about such non-cash transactions would be better presented in the statement of cash flows or disclosed in the notes. (One investor suggested non-cash transactions might be presented in a separate column next to cash transactions).

Improved accessibility of information disclosed about non-cash transactions

67. We heard from investors that it is sometimes difficult to find information about non-cash transactions. This information is often scattered throughout the notes and with no indication in the statement of cash flows that such information is available elsewhere in the financial statements. (Our analysis of financial statements summarised in Agenda Paper 20C of this meeting revealed diversity in the location and type of information disclosed about non-cash transactions—except for disclosures about the

[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.

effect of non-cash transactions on changes in liabilities arising from financing activities.[8])

68. However, we also understand that preparers might experience difficulties collecting information about some types of non-cash transactions. One preparer of a large group of entities said it is particularly difficult to collect information about the assets and liabilities in consolidated subsidiaries acquired through business combinations because they might not use the same accounting system as the group.

69. Some stakeholders suggested additional disclosure requirements might resolve perceived deficiencies in the information available about non-cash transactions, including:

    (a) requiring entities to include disclosures about non-cash transactions in a single note to make it easier for investors to find this information; and

    (b) requiring disclosure of additional information about non-cash capital expenditure (like leases) and non-cash changes in items classified within the financing category (like the effects of the non-cash settlement of a share-based payment transaction).

Method of reporting operating cash flows

70. Paragraph 18 of IAS 7 requires entities to report cash flows from operating activities using either the direct method or the indirect method. Using the direct method, an entity discloses major classes of gross cash receipts and gross cash payments from operating activities. Under the indirect method, an entity reconciles profit or loss to cash flows from operating activities.[9] Paragraph 19 of IAS 7 encourages entities to report cash flows from operating activities using the direct method.

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[8] In January 2016, the IASB introduced disclosure requirements for changes in liabilities arising from financing activities (paragraph 44A – paragraph 44E of IAS 7) 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.

[9] When IFRS 18 *Presentation and Disclosure in Financial Statements* becomes effective, all entities will be required to use the operating profit subtotal as defined in paragraph 70 of that Standard as the starting point for the indirect method of reporting cash flows from operating activities.

71. We heard mixed feedback about the costs and benefits of the methods of reporting operating cash flows. Even though IAS 7 encourages the application of the direct method, our outreach suggests that entities often do not make use of this method. (In our financial statement analysis, summarised in Agenda Paper 20C of this meeting, we found that most entities use the indirect method. A few entities used the direct method. Most of these entities also disclosed information about operating cash flows using the indirect method.)

72. We understand that the prevalence of the direct method in a particular jurisdiction or industry might be related to the regulatory requirements or local generally accepted accounting practices, such as in Australia. Some Interpretations Committee members said that the direct method is applied by some financial institutions in jurisdictions like Africa and India.

73. On the other hand, the indirect method appears to be applied widely throughout other jurisdictions such as Europe. A few preparers said that they use both direct and indirect methods to report cash flows from operating activities. Some of these preparers said that they use the direct method for internal purposes to obtain further insights regarding an entity's operating cash flows or to assess the accuracy of the cash flows reported using the indirect method. One regulator said some industries in some jurisdictions might use the indirect method and disclose specific direct cash flow information.

74. We summarise the feedback by the following sub-topics:

    (a) using the indirect method (paragraph 75); and

    (b) using the direct method (paragraphs 76–79).

Using the indirect method

75. We understand that the indirect method is used widely to report cash flows from operating activities. This method provides a useful link to understand the relationship between operating profits and operating cash flows. Particularly, compared to the direct method, the indirect method provides more transparent information about

changes in working capital that enables investors to understand an entity's cash and liquidity management practices.

Using the direct method

76. We heard some mixed views about the usefulness of direct cash flow information. We understand that investors might find it useful because the direct method provides more granular information regarding operating cash receipts and payments that enables better assessment of an entity's cash management practices and accurate information about earnings quality. This in turn enhances the accuracy of investors' forecasts. A few accounting firms said direct cash flow information is less prone to error. Such information is also useful to understand certain trends in business operations, like receipts from customers, and enable investors to identify if an entity is experiencing cash-flow problems.

77. However, there were investors that expect requiring the direct method might increase complexity and increased costs for entities. They thought such a change might not be worth the costs because these investors would still need supplemental disclosures, and possibly reconciliations of changes in working capital, to complete their analyses.

78. Aligning with the above-mentioned expectations of some investors, we heard consistently from preparers and auditors that implementing the direct method would require costly changes to reporting systems and would not remove the need for manual adjustments. For example, one preparer explained they recently implemented a sophisticated system that facilitates tagging of the cash flows of individual transactions. Implementing the system required significant investment and considerable time for training. They said the new system has also not completely removed the need to process a number of manual entries. However, the system does have benefits in that it provides improved visibility into reconciliations for income taxes and property, plant and equipment; and enhances internal controls.

79. Some investors, Interpretations Committee members and accounting firms suggested that requiring entities to present certain direct cash flow information—such as cash received from customers, cash paid to suppliers and employees—would be useful alongside the indirect method of reporting operating cash flows.

Information about commonly used cash flow measures

Free Cash Flow

80. It was frequently mentioned in our outreach that both investors and preparers also use a form of FCF in their cash flow analyses. IAS 7 does not define FCF but it is commonly defined as cash flows from operating activities less the amount of cash flow an entity generates (net of taxes) after taking into account non-cash expenses, changes in operating assets and liabilities, and capital expenditures.

81. Variations of FCF include Free Cash Flow to the Firm (FCFF) and Free Cash Flow to Equity (FCFE). FCFF refers to the cash generated by the entity's operations plus post-tax interest minus capital expenditure. FCFE refers to the cash flow from operations minus capital expenditure plus net borrowings. There are also a variety of methods and data points within financial statements investors might use to estimate FCF.

82. Feedback confirms diversity in how preparers and investors define FCF. A source of diversity might be whether adjustments are made for some non-cash transactions, like share-based payment transactions, or views about the nature of operating cash flows, such as whether income tax should be included. FCF measures might also vary based on the type of measure used, that is whether it is FCFF or FCFE.

83. Many investors, preparers and one regulator said that it would be challenging to devise a standardised definition of FCF. Stakeholders suggested it might be useful if entities disclose more granular cash flow information to enable investors to perform their own analysis using their own definition of FCF (or its variations). Other stakeholders suggested that a more efficient approach might be to develop a subtotal to which varying definitions of FCF could be reconciled—using a label other than ‘free cash flows’ to identify that subtotal. However, a few investors and preparers said a standardised definition of FCF is required for better comparability between entities.

84. IFRS 18 introduced new requirements regarding performance measures in the statement of financial performance. Some investors, preparers and one regulator said that an approach similar to ‘management-defined performance measures’ included in IFRS 18 could be extended to performance measures presented in the statement of

cash flows (like FCF). They said such an approach would result in more transparent information to support investors performing their own analyses.

Net debt

85. We understand that net debt is often a measure that is related to the statement of cash flow. A few investors said it would be useful to have more transparency regarding an entity's definition of, and judgements about, net debt. A few other investors asked for a reconciliation from the statement of financial position to net debt. (Stakeholder feedback on net debt relevant to the topic of 'definitions of cash and cash equivalents' is noted in paragraph 49.)

Statement of cash flows for financial institutions

86. IAS 7 requires all entities to present a statement of cash flows. Paragraph 3 of IAS 7 explains that: '[users] of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution.'

87. We heard consistently during outreach meetings that the statement of cash flows of banks and insurers (collectively referred to as financial institutions) might have reduced utility for investors and preparers. We understand that the differences in the business models between banks and insurers result in varying information needs for investors. Both banks and insurers are subject to capital and liquidity requirements. Investors seek information to understand how these requirements restrict the cash that can be distributed to shareholders. However, the underlying drivers of capital and liquidity management for banks and insurers differ. Therefore, the information needs of investors to assess the effect of capital and liquidity requirements might differ for banks and insurers.

88. Notwithstanding any differences in the business models, we heard similar reasons broadly for the reduced utility of the statement of cash flows and include:

(a) the statement of cash flows does not reflect how financial institutions manage its cash and liquidity risk;

(b) investors typically use the other primary financial statements, regulatory capital disclosures and regulatory liquidity disclosures for their analyses—investors are more interested in an entity's ability to generate capital, the constraints on that capital and what is the distributable amount from that capital which ultimately result in remaining cash to the shareholders;

(c) the statement of cash flows does not effectively distinguish between the cash available to the entity's shareholders and the cash that belongs to its customers or policyholders;

(d) the categorisation of operating, investing and financing activities in the statement of cash flows in applying the requirements of IAS 7 might not be useful for financial institutions because some cash flow items that are classified in the investing and financing categories relate to the operating activities of a financial institution; and

(e) disclosures required by other IFRS Accounting Standards, like IFRS 7 *Financial Instruments: Disclosures* and IFRS 17, and information disclosed outside of the financial statements about regulatory capital are more useful for investors analysing financial institutions.

89. Some investors said the statement of cash flows provides useful information for financial institutions regarding investing and financing activities specific to some transactions such as cash flows relating to:

(a) dividend payments;

(b) interest payments and receipts (this might be presented in operating activities as well);

(c) capital issued and repaid;

(d) share options exercised; and

(e) changes in debt.

90. A few investors said the statement of cash flows can provide insights into the nature of a financial institution's business activities. For example, in one jurisdiction

investors could identify banks that were not fully active because the statement of cash flows did not indicate an increase in working capital loans up to the expected level of utilization. A few other investors said the statement of cash flows links, to some extent, information about items between the other primary statements.

91. A few investors said the statement of cash flows might also provide inputs for valuations of financial institutions. We understand that the information will be analysed differently compared to non-financial institutions. For example, earnings might be adjusted to include those items that effect an entity's capital and by removing those items that do not.

92. We heard diverse suggestions of possible approaches to address perceived deficiencies with the statement of cash flows for financial institutions. These include:

   (a) removing the requirement to present a statement of cash flows for financial institutions;

   (b) developing a statement of cash flows specifically for financial institutions that bridges the information gap between the entity's financial performance and its cash performance;

   (c) developing specific presentation requirements in the statement of cash flows:

      (i) for insurers, disaggregating cash flows from life business and non-life business;

      (ii) for banks, segregating the cash flows from lending to customers from other types of lending; and

      (iii) aggregate specific line items in the statement of cash flows for financial institutions.

   (d) developing specific disclosure requirements for financial institutions, for example, developing specific cash flow measures that might be useful to investors when analysing financial institutions.

93. Accounting firms said that if the requirement to prepare a statement of cash flows is removed for financial institutions, it would create complexities preparing the statement for a conglomerate which consist of both financial and non-financial entities.

Question for the IASB

Question for the IASB
Does the IASB have any comments or questions on the outreach feedback we summarised in this paper? Specifically: a) is there any feedback that is unclear or unexpected? b) are there any points you would like staff to research further before developing the project plan? c) are there any points you would like to highlight for the staff to consider in progressing the project?

Appendix A—Outreach meetings conducted

A1. In Agenda Paper 20B of the IASB's September 2024 meeting, we set out a plan to meet with stakeholders individually and in representative groups (including consultative group meetings) to better understand their experiences (including perceived deficiencies and challenges) with the statement of cash flows and related disclosures.

Meetings with IFRS Foundation bodies

A2. We asked for feedback at the meetings of the following IFRS Foundation bodies:

(a) Joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) in June 2024;

(b) CMAC in November 2024;

(c) GPF in November 2024; and

(d) IFRS Interpretations Committee meeting in November 2024.

Other stakeholder meetings

A3. We also conducted 37 meetings with other stakeholders, individually or with representative groups. We summarise the stakeholders by type and region in the following two tables. We order the information by the number of meetings, from highest to lowest.

Table 1—Number of meetings by type of stakeholder

Type of Stakeholder	Number of meetings
Investors	18
of which have experience with financial institutions	08
Preparers	13
of which a representative group for financial institutions	01
Regulators	03
Accounting profession and auditors	03
Total	37

Table 2—Number of meetings by region

Region	Number of meetings
Europe	20
Global	09
Asia-Oceania	03
Africa	02
North America	02
South America	01
Total	37

A4. We further received feedback via email from two investors in Europe and Asia-Oceania who have experience with financial institutions. We included their feedback in this paper.

Questions asked

A5. We developed our questions for stakeholders using the seven topics we identified through our review of the Third Agenda Consultation, academic literature review and early stakeholder feedback (see Cover note).

A6. In our meetings with investors, we primarily sought to understand:

(a) how they classify cash flows between operating, investing and financing for their analyses;

(b) what they consider best practice for disaggregating cash flow information;

(c) how they define their own cash flow measures (for example, FCF) or analyse an entity's cash flow measures;

(d) what other cash flow information disclosed by entities they find useful; and

(e) how they use cash flow information in their analyses, including how cash flow information is combined with information presented in other primary financial statements or disclosed in the notes (for example, the use of information about non-cash transactions).

A7. We asked preparers:

(a) how they internally classify cash flows between operating, investing and financing and why these classifications might differ from each other or requirements in IFRS Accounting Standards;

(b) how they disaggregate cash flow information for internal management purposes and why these might differ from line items presented in the statement of cash flows;

(c) how they define non-GAAP measures and the adjustments they make to cash flow information required by IFRS Accounting Standards;

(d) what information in addition to that required by IFRS Accounting Standards they disclose;

(e) the systems and process they use to produce the statement of cash flows and related disclosures to identify the cost implications of possible solutions to the perceived matters (including the extent to which the direct method is used and the changes that might be necessary if it were required).

A8. We held meetings with investors and preparers of various types of financial institutions (including 'conglomerates'). We asked them more specifically about the usefulness of the information provided by the statement of cash flows and related disclosures and whether other information might be more useful for these types of entities.

A9. We approached accounting firms and auditors about their experience with the statement of cash flows and related disclosures and whether the topics identified in the Third Agenda Consultation, academic literature review and early stakeholder feedback sufficiently include the accounting challenges they experience.

A10. We also asked regulators whether:

(a) they have information on the nature and causes of frequent errors they encounter in the statement of cash flows; and

(b) they are aware of any jurisdictional restrictions or additional presentation, or disclosure requirements related to the statement of cash flows and related information.