IFRS Accounting

Staff paper

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Project	**Statement of Cash Flows and Related Matters**
Topic	**National standard-setter outreach and research**
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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 our outreach activities with, and recent research performed by, national standard-setters (NSS) on the topic of the statement of cash flows and related matters.

2. Our summary includes feedback from the December 2024 meetings of the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG). We also summarise research on the statement of cash flows and related matters being conducted by some NSS. A detailed list of the NSS projects and related research reports that we reviewed is included in Appendix A.

3. The paper does not ask the IASB to make a decision but invites IASB members' questions and comments on the staff's analysis.

Structure of this paper

4. We summarise most of the feedback from outreach meetings with, and recent research performed by NSS, by our seven research topics listed in paragraph 4 of the cover paper:

(a) requirements for classifying cash flows (paragraphs 8–20);

(b) aggregation and disaggregation of cash flow information (paragraphs 21–30);

(c) definitions of cash and cash equivalents (paragraphs 31–46);

(d) effects of non-cash transactions (paragraphs 47–52);

(e) method of reporting operating cash flows (paragraphs 53–61);

(f) information about commonly used cash flow measures (paragraphs 62–68); and

(g) the statement of cash flows for financial institutions (paragraphs 69–73).

5. NSS also comment on other matters not covered by our seven research topics. We summarise our findings on such matters under 'Other matters' (paragraphs 74–83).

6. We include our question to the IASB on page 25.

7. In Appendix A we summarise information about the outreach meetings conducted and the research documents reviewed.

Requirements for classifying cash flows

8. Consistent with feedback from other stakeholders, most NSS did not identify fundamental matters with the classification requirements in IAS 7 *Statement of Cash Flows*. They suggested specific enhancements to the requirements would resolve matters raised by stakeholders. NSS identify similar areas of perceived deficiency with the requirements for classifying cash flows to those identified in the feedback from other stakeholders. In addition, NSS identify two additional areas of perceived deficiency. We summarise comments from NSS about the requirements for classifying cash flows using the same three sub-topics ((a)–(c)) we use in Agenda Paper 20A of this meeting. We also add two additional sub-topics ((d)–(e)) identified from the feedback from, and work of, NSS:

(a) classification for cash flow analyses (paragraphs 9–10);

(b) consistent application of classification requirements (paragraphs 11–12);

(c) alignment with classification requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* (paragraphs 13–17);

(d) related receipts and payments classified differently (paragraphs 18–19); and

(e) definition of financing activities (paragraph 20).

Classification for cash flow analyses

9. The discussion paper prepared by the staff of the UK Financial Reporting Council (FRC) issued in October 2016 included a proposal to classify capital expenditure within operating activities with a subtotal drawn before capital expenditure. We understand such a presentation would more closely align the operating category with commonly used cash flow measures such as Free Cash Flows (FCF). Respondents to the discussion paper expressed split views about the proposal. Some respondents disagree because the improvement by the proposal is not sufficient to warrant a change to current practice. Other respondents to the paper disagree because they believe capital expenditure is an investing activity.

10. Research by NSS includes their analyses on the items for which investors and preparers commonly make adjustments: (These items were also identified in our other outreach as summarised in Agenda Paper 20A of this meeting (‘our other outreach’))

(a) lease payments—EFRAG says in its discussion paper issued in November 2024 that some investors prefer distinguishing cash flows between those from operating leases and those from finance leases as they were defined in IAS 17 *Leases*. We understand this split facilitates calculation of FCF. However, EFRAG also says that re-introducing this distinction might reduce an investor’s ability to assess an entity’s financing activities and cash management.

(b) expenditure that did not result in a recognised asset—paragraph 16 of IAS 7 states only expenditures that result in a recognised asset are eligible for classification as investing activities. EFRAG says in its discussion paper that some stakeholders think this requirement might misrepresent operating cash flows and capital expenditures. Some expenditures such as research and development are not capitalised if the specified requirements are not met. However, these expenditures might have a similar nature to capital expenditures that result in a recognised asset. However, EFRAG also says this requirement might have brought better alignment between the statement of cash flows and the statement of financial position and reduced diversity in practice.

Consistent application of classification requirements

11. Feedback from NSS and the results of their research was consistent with feedback from other stakeholders about perceived diversity in how entities classify cash flows from some transactions. Examples from the presentation by Canadian Accounting Standards Board (AcSB) at the ASAF meeting in September 2024 (AcSB Presentation) and the EFRAG's discussion paper of such transactions include: (in alphabetical order)

    (a) foreign exchange differences;

    (b) payments of variable consideration;

    (c) payments or receipts from business combinations;

    (d) payments related to the purchase of an asset on deferred payment terms;

    (e) payments to unfunded defined benefit pension schemes;

    (f) receipts and payments related to derivatives structured as collateralised-to-market;

    (g) receipts from a sale and lease back arrangement where the transaction qualifies as a sale;

    (h) receipts from factoring of trade receivables; and

(i) receipts from government grants.

12. The FRC in its discussion paper included a proposal to positively define or describe operating activities rather than this category being a residual or default category. Most respondents to that discussion paper supported this proposal. This proposal might relate to feedback from other stakeholders in our outreach meetings that requested clarity about a perceived 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’).

Alignment with classification requirements in IFRS 18

13. NSS more strongly supported alignment between the statement of cash flows and the statement of profit or loss in accordance with IFRS 18 than other stakeholders in our outreach meetings.

14. In paragraph 18 of Agenda Paper 20A of this meeting we explain that the categories as defined in the statement of profit or loss and the statement of cash flows are not aligned in two ways:

(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.

15. Relating to alignment of categories (paragraph 14(a)), in meetings of ASAF and EEG, the FRC in its discussion paper and EFRAG in its discussion paper, NSS suggest presenting payments of income taxes as a separate category in the statement of cash flows rather than in the operating category. This classification would be consistent with the category in the statement of profit or loss in IFRS 18. In contrast, in the working paper issued by the staff of Australian Accounting Standards Board (AASB)

in February 2025 (AASB Working Paper), its staff suggests the IASB consider requiring separate disclosure of income taxes and allocating them to operating, investing and financing activities. This allocation reflects the nature of the underlying transaction. (In our preliminary analysis of financial statements reported in Agenda Paper 20C of this meeting, we identified that most sample entities classified income taxes paid into operating activities.)

16. A few NSS comment on alignment of classification (paragraph 14(b)). One EEG member suggested aligning the classification of cash flows related to property, plant and equipment with how the related income and expenses are classified in accordance with IFRS 18. Many respondents to the FRC's discussion paper said the definition of operating activities in IAS 7 needs to be consistent with the definition of operating activities used for the statement of profit or loss. An accounting firm explained that "…it is important that the two statements reflect a consistent presentation of performance that then allows genuine disparities between cash and profit performance to be identified and explained". (We note the respondents made these comments before the IASB concluded when developing IFRS 18 on the definition of operating profit in the statement of profit or loss. Therefore the respondents did not specifically consider the conclusion on operating profit in IFRS 18.)

17. However, EFRAG says in its discussion paper that complete alignment may not meet some stakeholders' objectives, and an alternative approach might be to differentiate the names of categories with differing definitions.

Related receipts and payments classified differently

18. EFRAG says in its discussion paper that some stakeholders do not think the information is the most relevant if cash receipts are classified within the operating category whereas the related payments are classified in a different category, or vice versa. This could happen, for example, under supplier finance arrangements which extends the purchaser's (the entity's) payment terms. Payments to the finance provider might be classified within the financing category whereas the receipts from the sale of

the related inventory would be classified within the operating category. This outcome might result in overstating the entity's cash flows from operating activities. However, EFRAG also said that requiring related receipts and payments to be included within the same category could reduce an investor's ability to assess the entity's financing activities.

19. EFRAG's observations about related receipts and payments also interact with its comments about non-cash changes in assets and liabilities. See 'Information about non-cash changes in assets and liabilities' in paragraph 48–50 for additional information.

Definition of financing activities

20. One EEG member said the IASB could reconsider some of the feedback received during outreach activities of IFRS 18 on the definition of financing activities in IAS 7. The IASB decided not to define financing activities in that project.

Aggregation and disaggregation of cash flow information

21. We summarise feedback from NSS about aggregation and disaggregation of cash flow information using the same and relevant sub-topics we use in Agenda Paper 20A of this meeting:

    (a) capital expenditures (paragraphs 22–24);

    (b) cash flow information by reportable segment (paragraphs 25–26);

    (c) composition of working capital (paragraph 27);

    (d) disaggregation of information about dividends received and paid (paragraph 28); and

    (e) offsetting and aggregation (paragraphs 29–30).

Capital expenditures

22. From our outreach with other stakeholders we understand that investors might find useful information about capital expenditure that is disaggregated between growth and maintenance. Members of ASAF and EEG told us they heard the same message in their jurisdictions, and the findings included in the AcSB Presentation and from EFRAG in its discussion paper support this feedback.

23. However, similar to our outreach, EFRAG observes in its discussion paper that some stakeholders question whether disaggregating cash flow information between growth and maintenance capital expenditures would be useful because of the difficulty in making the distinction. The FRC included in its discussion paper findings suggesting the division would require too many arbitrary judgements. The conclusion in that paper is that entities need to continue to be encouraged, but not required, to disclose the extent to which expenditure on property, plant and equipment represents ‘replacement’ or ‘expansion’. This suggestion was supported by the majority of respondents to the paper.

24. In contrast, the AcSB suggested in the AcSB Presentation that the IASB might consider requiring disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity. They added that disaggregated information between expenditure that maintains operations and those that grow operations is also important for non-capital expenditures for non-capital-intensive companies. In the presentation by the AASB research team at the September 2024 meeting of the International Forum of Accounting Standard Setters (IFASS) (AASB Presentation), the research team also tentatively suggested that the IASB provide more guidance on how to disaggregate cash flows for capital expenditures by developing clearer definitions and illustrative examples.

Cash flow information by reportable segment

25. Through our other outreach we understand that cash flow information by reportable segment is useful to investors. EFRAG also says in its discussion paper that some stakeholders think such information enables investors to understand the cash flows for each reported segment.

26. In our other outreach, investors and preparers commented that entities often do not provide this information even though this disclosure is encouraged by IAS 7. The AASB in its working paper confirms that none of the sample companies disclosed cash flow information by reportable segment. They recommend further investigation to assess the usefulness of the information for investors and the cost to preparers of preparing this information.

Composition of working capital

27. Through our other outreach investors suggest the IASB require entities to explain the composition of working capital. Our outreach and financial statement analysis identified entities often differ in the detail they provide for what an entity considers when disclosing changes in working capital. The AcSB also noted inconsistency in what entities consider as working capital in the AcSB Presentation.

Disaggregation of information about dividends received and paid

28. Aligned with our other outreach, EFRAG says in its discussion paper that some investors asked for separate line items in the statement of cash flows for dividends paid to non-controlling interests and those paid to owners of the parent.

Offsetting and aggregation

29. We understand from our other outreach that investors might find it useful if some types of cash flows classified within investing and financing activities are reported

net. The FRC includes in its discussion paper a suggestion that net presentation of cash flows (other than those in respect of operating activities) should be permitted only for cash flows relating to financial instruments that are of the same class. Some respondents to the paper supported this suggestion.

30. We note in paragraph 23 of Agenda paper 20A that stakeholders' comments do not consider possible financial reporting changes that might occur when IFRS 18 becomes effective. 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. In contrast, EFRAG says in its discussion paper, and an ASAF member said, that they expect the requirements on aggregation and disaggregation in IFRS 18 to provide significant improvements to the way entities aggregate and disaggregate information in the statement of cash flows.

Definitions of cash and cash equivalents

31. We summarise feedback from NSS about the definitions of cash and cash equivalents using the same and relevant sub-topics we use in Agenda Paper 20A of this meeting:

    (a) continued relevance of the definitions of cash and cash equivalents (paragraphs 33–37);

    (b) consistent application (paragraphs 38–40); and

    (c) additional disclosures on restricted cash (paragraphs 41–42).

32. Some NSS suggest that the IASB considers whether to replace the statement of cash flows with a statement that depicts changes in items other than cash and cash equivalents, such as changes in net debt. We discuss these alternative statements in 'Alternatives to a statement of cash flows' (paragraphs 43–46).

Continued relevance of the definitions of cash and cash equivalents

General

33. Our feedback from our other outreach highlights concerns with the existing definitions of cash and cash equivalents. One ASAF member suggested the IASB consider whether the project should address topics such as crypto currencies and carbon credits[1].

Cash

34. Our outreach identified a possible lack of requirements that enable entities to assess whether some transactions give rise to cash flows. EFRAG says in its discussion paper that stakeholders have differing views on whether to include receipts or payments in the statement of cash flows that have been made on behalf of the entity. The EFRAG's discussion paper includes the following examples of such cash flows:

    (a) cash paid by a bank on behalf and at the request of the entity, for which the bank also provides a financing solution; and

    (b) cash collected on behalf of a third party for certain sales taxes.

35. EFRAG's observations about differing views about cash flows that occur on behalf of an entity interact with comments about non-cash changes in assets and liabilities. See 'Information about non-cash changes in assets and liabilities' in paragraph 48–50 for additional information.

Cash equivalents

36. Consistent with other stakeholders, the AASB Working Paper and EFRAG in its discussion paper also include comments about the maturity basis of 90 days to define

[1] This ASAF member explained that companies might accept carbon credits as payment for services. Such transactions are not included in the statement of cash flow.

cash equivalents. Both NSS question its continued relevance in the light of the current business environment, evolving business models and/or management intentions.

37. However, EFRAG also says in its discussion paper that some stakeholders are of the view that the definition of cash equivalents is not sufficiently restrictive because information about an entity's liquidity is reduced by classifying items as cash if those items cannot be converted into cash 'immediately'.

Consistent application

38. Most NSS, including the AASB in its working paper and the EFRAG in its discussion paper, provide similar feedback to other stakeholders about diversity applying the definitions of cash and cash equivalents.

39. The AASB in its working paper and the EFRAG in its discussion paper said that the terms in the definition of cash equivalents such as "short-term", "highly liquid" and "insignificant risk" are subjective and interpreted differently.

40. EFRAG also suggests there might be uncertainty about whether the definition of cash equivalents implicitly includes a rebuttable presumption that an investment is not a cash equivalent. If so, it thinks similar types of investments might or might not be treated as cash equivalents depending on whether each entity collects necessary evidence.

Additional disclosures on restricted cash

41. Consistent with other stakeholders, EFRAG in the ASAF meeting in December 2024 and in its discussion paper, suggests requiring disclosure of more information about restrictions on cash. EFRAG also suggests disclosures about where cash is placed in a group, including the percentage of the consolidated cash that is available to the parent entity.

42. The AASB notes in its working paper that many of the sample entities did not disaggregate the amounts of cash and cash equivalents even though paragraph 45 of IAS 7 requires disclosing the components of them. They note that this might make it challenging for investors to clearly understand what constitutes, and the amount of, each component of cash and cash equivalents in these financial statements.

Alternatives to a statement of cash flows

43. In the ASAF meeting in December 2024, one ASAF member said that cash and cash equivalents should be considered in a broader context, and suggested the IASB considers whether the statement of cash flows should only present the movement of cash and cash equivalents or whether it should focus on a different measure.

44. The AcSB also made similar comments in the AcSB Presentation. It suggested that the IASB might explore replacing the statement of cash flows with another statement using a measure different from cash and cash equivalent to reflect an entity's available liquid assets or funding sources to meet its liquidity needs.

45. EFRAG says in its discussion paper that the IASB might consider whether the statement of cash flows could be replaced by another statement to achieve more alignment with commonly used cash flow measures, as well as to solve some other matters such as those related to non-cash transactions. Below are the possible alternative statements included in the discussion paper:

    (a) a statement of changes in net debt;

    (b) a statement of changes in working capital;

    (c) a statement of changes in other liquid assets; and

    (d) a statement of changes in assets used in liquidity management.

46. The FRC included in its discussion paper a proposal that the statement of cash flows should report receipts and payments of cash rather than cash and cash equivalents, with a separate section of the statement of cash flows that report cash flows relating to

the management of liquid resources. The views of the respondents to the paper were split almost equally.

Effects of non-cash transactions

47. Some NSS highlight the perceived deficiencies with the disclosure of information about the effects of non-cash transactions. We summarise our findings using the same and relevant sub-topics we use in Agenda Paper 20A of this meeting:

    (a) information about non-cash changes in assets and liabilities (paragraphs 48–50); and

    (b) improved accessibility of information disclosed about non-cash transactions (paragraphs 51–52).

Information about non-cash changes in assets and liabilities

48. We understand from our other outreach that 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. EFRAG says in its discussion paper that some stakeholders think a reconciliation between the statement of profit or loss, the statement of financial position and the statement of cash flows could be useful to understand the effects of non-cash changes in assets and liabilities.

49. At the November 2023 meeting of the Financial Accounting Standards Board (FASB), its staff asked the FASB whether to start a standard-setting project to require a reconciliation between changes in period-to-period revenue-related balance sheet items and changes in the corresponding items in the statement of cash flows. The FASB decided not to include it in the standard-setting project but retained a research project about the statement of cash flows to explore further potential improvements.

50. From our outreach, we also understand that investors, among others, use information about non-cash changes to compare the non-cash changes of some transactions to

'economically similar' cash transactions. EFRAG says in its discussion paper that some stakeholders consider that the statement of cash flows should present such non-cash changes for the purposes of comparability and understanding of an entity's business. However, EFRAG also says that presenting non-cash changes on a similar basis as changes in cash flows might reduce the usefulness of the statement for different purposes, such as assessing how sustainable reported earnings is. The FRC in its discussion paper also states this concern of comparability. However, the FRC includes a conclusion that only cash flows should be presented in the statement of cash flows with transparent disclosure of non-cash changes provided in the notes. A large majority of respondents to the paper agreed with this view.

Improved accessibility of information disclosed about non-cash transactions

51. Our feedback from other stakeholders suggests investors appear to find it difficult to find information about non-cash transactions. Some ASAF members requested guidance on how entities disclose non-cash transactions. A few EEG members said some stakeholders had requested requirements for detailed disclosures about non-cash changes in working capital. The AcSB noted in the AcSB Presentation that there is a need for more transparency about non-cash transactions such as supplier finance arrangements.

52. One EEG member said requiring entities to provide additional disclosures about non-cash changes in assets and liabilities and to cross-reference other relevant information provided in their financial statements would improve the transparency of information in the statement of cash flows.

Method of reporting operating cash flows

53. In our other outreach, 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. Some ASAF members and one EEG member also said that the direct method is uncommon.

54. However, the AASB says in its working paper that the majority of sample companies selected in its jurisdiction use the direct method along with a reconciliation of profit to net operating cash flows.

55. We summarise our findings by the same sub-topics we use in Agenda Paper 20A of this meeting:

(a) using the indirect method (paragraphs 56–57); and

(b) using the direct method (paragraphs 58–61).

Using the indirect method

56. We understand from outreach that investors use the indirect cash flow information because it provides a useful link to understand the relationship between operating profits and operating cash flows. EFRAG also says in its discussion paper that European investors it consulted prefer the indirect method even though academic research generally seems to favour the direct method.

57. The FRC includes in its discussion paper proposals to:

(a) consider requiring a reconciliation between a subtotal in the statement of profit or loss that represents operating income (operating profit) and cash flows from operating activities even when a direct method is used—a majority of the respondents to the paper supported this suggestion; and

(b) the reconciliation in (a) might be disclosed in a note rather than presented in the statement of cash flows—respondents had mixed views on this suggestion.

Using the direct method

58. In outreach we heard mixed views about the usefulness of direct cash flow information. We understand that preparing the direct method can be difficult for preparers. The AASB says in its working paper that the literature on cash flow reporting presents mixed findings on the relevance and practicality of the direct method. Some ASAF members said that some of their stakeholders also said implementing the direct method would be complex.

59. In the AASB Presentation, the AASB's research team tentatively recommended the IASB continues allowing the choice between the direct and indirect method because they both provide useful information to investors. Although, they acknowledged that the choice might reduce comparability. Some ASAF members and one EEG member also said that some of their stakeholders suggested presenting or disclosing information using both the direct and indirect methods.

60. The FRC also includes in its discussion paper a conclusion that the IASB should neither prohibit nor require the direct method, with support from a large majority of the respondents to the paper. In addition, the FRC includes a proposal to consider requiring an entity to disclose using the direct method either the components of particularly significant cash flows from operating activities or changes in related working capital items. Respondents to the paper had mixed views. Similarly, the AcSB said in the AcSB Presentation that the IASB could explore requiring supplemental disclosures of specified direct cash flow information that could complement the indirect method, while retaining the current choice between the direct and indirect method.

61. At the FASB board meeting in November 2023, its staff asked the FASB whether to start a standard-setting project to require a disclosure of cash received from revenue-related transactions. The FASB decided not to include it in the standard-setting project but retained a research project about the statement of cash flows to explore further potential improvements.

Information about commonly used cash flow measures

62. In Agenda Paper 20A of this meeting we report that it was frequently mentioned in our outreach that both investors and preparers use a form of FCF in their cash flow analyses. Feedback from our other outreach meetings confirms diversity in how preparers and investors define FCF. NSS also identify FCF as a commonly used cash flow measure along with other liquidity measures. They also highlight the issue of comparability between different definitions.

63. The AASB says in its working paper that FCF was commonly disclosed in financial statements although its measurement and location within the annual report varied across the sample. The AcSB said in the AcSB Presentation that a majority of companies disclose FCF measures and reported that various investor groups also use the measures in their analysis. In addition, the AcSB observed that a few entities provide liquidity measures to communicate the resources available to meet liquidity needs.

64. EFRAG in its discussion paper identifies the following as measures widely used that are related to statement of cash flows:

    (a) working capital;

    (b) net debt; and

    (c) FCF.

65. The FRC includes in its discussion paper an observation that information in the statement of cash flows might be used to:

    (a) assess the management of working capital; and

    (b) derive a measure of performance, such as FCF.

66. As part of the FASB's research project on Financial Key Performance Indicators for Business Entities, its staff issued Invitation to Comment *Financial Key Performance Indicators for Business Entities* (FASB ITC) in November 2024. In the FASB ITC,

the FASB staff observes that the proportion of companies reporting financial key performance indicators increased from 2013 to 2022 in its jurisdiction, and FCF (including adjusted FCF) was one of the five most commonly disclosed financial key performance indicators. The FASB staff also notes FCF as one of the items provided by certain financial data providers.

67. In our outreach we understand that a few investors and preparers said that a standardised definition of FCF is required for better comparability between entities. However, many said that it would be challenging to devise a standardised definition of FCF. In the FASB ITC, the FASB staff says its research suggest that the increased use of financial key performance measures, including FCF, reduces comparability because standardised definitions of these measures do not exist. The FASB solicits feedback from stakeholders about whether financial performance measures should be standardised, and whether they should be required or permitted to be disclosed in an entity's financial statements. EFRAG says in its discussion paper that some stakeholders also suggest defining commonly used cash flow measures, while others do not think defining them are necessary if additional disclosure is provided. A member from ASAF prefers having a standardised definition of FCF while others say more transparent cash flow information about how individual measures were calculated would be sufficient. In the AASB Presentation, the AASB's research team tentatively recommended the IASB to explore whether there are any information gaps and a need to standardise the definition of FCF.

68. In our other outreach, stakeholders suggested an approach for cash flow measures similar to the requirements in IFRS 18 for management-defined performance measures. One ASAF member, one EEG member, the AcSB in its presentation and EFRAG in its discussion paper suggested the IASB might develop requirements for FCF that are similar to the management-defined performance measures in IFRS 18.

Statement of cash flows for financial institutions

69. Similar to our other outreach, NSS express diverse views on the usefulness of the statement of cash flows for financial institutions and approaches to potential improvements.

70. Some ASAF members said the statement of cash flows is of limited use for financial institutions. However, some other ASAF members said there isn't sufficient evidence to suggest that, for financial institutions, the statement of cash flows should be removed or replaced.

71. The AcSB in its presentation and EFRAG in its discussion paper confirm the views of some in our other outreach that while the statement of cash flows is of limited use to financial institutions, there is still value derived from the statement because the statement could:

    (a) provide some insights about an entity's liquidity position and a clear reconciliation of cash;

    (b) serve as a validation tool for some of the estimations in the statement of financial performance;

    (c) include relevant information such as contingent consideration paid, interest and dividends paid, capital raised less buybacks, stock options exercised, and working capital;

    (d) provide information of activities other than banking or insurance when the entity has mixed activities (e.g. asset management);

    (e) present changes in the entity's sources of finance—however, only if prepared using the indirect method; and

    (f) include information about gross operating cash flows—however, only if prepared using the direct method.

72. Also similar to our other outreach, NSS report diverse suggestions from their stakeholders of possible approaches to address perceived deficiencies with the statement of cash flows for financial institutions:

(a) some ASAF members said insurers suggested to remove the distinction between operating and investing categories.

(b) some ASAF members also suggested disclosure requirements that replicate regulatory reporting might provide more useful insights into banks' cash and liquidity management.

(c) some other ASAF members suggested that if the IASB considers making improvements to the statement of cash flows for financial institutions, those changes should reflect only significant improvements that investors find highly informative.

(d) the AcSB in its presentation says the IASB needs to only consider specific enhancements because the statement of cash flows is not heavily relied upon by investors in the financial services sector—these enhancements include:

  (i) considering whether some transactions are better classified in operating activities for banks and insurers; and

  (ii) developing a better link between IAS 7 and the cash flow-related disclosures required by other standards, for example, the reconciliations of insurance contract liabilities required by IFRS 17 *Insurance Contracts*.

(e) EFRAG in its discussion paper identifies alternative or additional information as a potential solution to improve the usefulness of the statement and/or reduce the cost to preparers. These solutions include:

  (i) presentation or disclosure of regulatory ratios;

  (ii) disclosure of information about liquidity;

  (iii) disclosure of information about dividend payout capacity;

(iv) presentation of a statement of (regulatory) capital flows;

(v) removal of the categories;

(vi) disclosure of information about the collection and uses of cash resources;

(vii) a standardised table with stress-testing scenarios; and

(viii) information on cash flows related to interest and loan originations and repayments.

73. The FASB decided to add a standard-setting project to reorganise and disaggregate the statement of cash flows for financial institutions. This project is based on the feedback from the preparers and investors that certain activities classified as investing or financing activities are central to the operations of a financial institution. As of 6 January 2025, the FASB directed its staff to perform further research and outreach to determine the scope of entities that would be subject to the proposed changes and to explore possible revised definitions of investing and financing activities for the entities within the scope of this project.

Other matters

74. Many NSS comment on the approach of a standard-setting project about the statement of cash flows. Some NSS also comment on supplemental disclosures to accompany the statement. A few NSS comment about the objectives of the statement of cash flows. Consequently, we summarise our understanding of their comments under the following sub-topics:

(a) approach of a standard-setting project (paragraphs 75–77);

(b) supplemental disclosures (paragraphs 78–79); and

(c) purpose and usage of statement of cash flows (paragraphs 80–83).

Approach of a standard-setting project

75. Many ASAF members suggested the IASB considers a phased approach to address matters relating to the statement of cash flows. They suggested the IASB first consider resolving the most prevalent matters that might not require significant time and effort.

76. In the AASB Presentation, the AASB's research team says, although its research was not completed, the feedback it received to date suggested that a comprehensive review of the statement of cash flows is not particularly needed because the statement of cash flows generally provides useful information. Specific enhancements might be an efficient approach to standard-setting.

77. In its discussion paper, EFRAG lists the advantages and disadvantages of specific enhancements and a comprehensive review. It, however, does not provide a preliminary view.

Supplemental disclosures

78. EFRAG suggests in its discussion paper supplemental disclosures such as:

    (a) preparation and classification choices made by the entities;

    (b) intercompany cash flows;

    (c) liquidity and ability to service debt, including information to help assess liquidity mismatches;

    (d) non-cash income;

    (e) non-recurring cash flows; and

    (f) impacts of business combinations.

79. In the AASB working paper, the AASB suggests considering improvement to the disclosure of information on undrawn borrowing facilities encouraged by paragraph 50(a) of IAS 7 to be consistent with the disclosure of liquidity risk management required by paragraph 39(c) of IFRS 7 *Financial Instruments: Disclosures*.

Purpose and usage of statement of cash flows

80. One EEG member said that investors have said the statement of cash flows is not frequently used for making decisions and they do not frequently raise questions about this information.

81. EFRAG in its discussion paper identifies objectives of the statement of cash flows based on the *Conceptual Framework for Financial Reporting* and IAS 7. It says the IASB needs to consider which objectives takes priority in order to efficiently address matters related to the statement of cash flows. This is because some matters might be addressed differently depending on which objectives take priority.

82. EFRAG lists the following objectives:

    (a) evaluating the changes in net assets, including:

        (i) understanding the entity's business;

        (ii) assessing closeness to cash; and

        (iii) assessing current performance of the entity;

    (b) assessing the entity's financial structure, including:

        (i) assessing liquidity; and

        (ii) assessing solvency;

    (c) assessing the entity's ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities;

    (d) assessing the ability of the entity to generate cash and cash equivalents;

    (e) comparing entities using different accounting treatments for the same transactions;

    (f) assessing management's stewardship, including:

        (i) assessing management's general performance; and

        (ii) assessing management's cash management.

83. The FRC includes in its discussion paper an observation that the main purpose of the statement of cash flows is to assist investors to assess liquidity and the financial structure of the entity and changes in these. This observation has support from some respondents to the paper.

Question for the IASB

Question for the IASB
Does the IASB have any comments or questions on the findings we summarised in this paper? Specifically: a) is there any finding that is unclear or unexpected? b) are there any points you would like to highlight for the staff to consider in progressing the project?

Appendix A—Outreach meetings conducted and the research documents reviewed

A1. We conducted outreach meetings with NSS at the meetings of the following IFRS Foundation bodies:

(a) ASAF in December 2024; and

(b) EEG in December 2024.

A2. In addition, we reviewed the following research of NSS triggered by this project or the previously completed project Primary Financial Statements:

(a) Australian Accounting Standards Board (AASB)—Presentation on International Forum of Accounting Standard Setters (IFASS) meeting in September 2024 summarised in IFASS Meeting Report (AASB Presentation) and 'Statement of Cash Flows and Related Matters -Australian Listed Entities', AASB Research Centre Working Paper No. 25-03 issued in February 2025 (AASB Working Paper), which are based on a desktop review of fifty listed Australian companies;

(b) Canadian Accounting Standards Board (AcSB)—Presentation at ASAF meeting in September 2024 (AcSB Presentation) based on outreach with Canadian stakeholders, a desktop review of a sample of Canadian companies and a review of relevant academic studies;

(c) EFRAG—Discussion Paper *The Statement of Cash Flows. Objectives, Usages and Issues* issued in November 2024; and

(d) UK Financial Reporting Council (FRC)—Discussion Paper *Improving the Statement of Cash Flows* issued in October 2016 and Feedback Statement on the FRC Discussion Paper issued in July 2017.

A3. We also identified the following research by the Financial Accounting Standards Board (FASB) from our horizon-scanning for the projects:

(a) Project on Statement of Cash Flows—Targeted Improvements;

(b) Research project on Statement of Cash Flows; and

(c) Research project on Financial Key Performance Indicators for Business Entities.