Staff paper

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Project	**Statement of Cash Flows and Related Matters**
Topic	**Analysis of financial statements**
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Objective

1. The objective of this agenda paper is to report the results of our initial financial statement analysis to the International Accounting Standards Board (IASB). We have analysed the financial statements and other related documents, such as the MD&A included in the annual report, of 40 entities. Our objective was to understand current practice in the statement of cash flows and related disclosures, including how commonly used cash flow measures are reported. This initial analysis is intended to help the IASB decide on which topics to further explore. As we develop approaches to the topics the IASB decides to further explore we plan to do more detailed research and analysis.

2. In presenting our findings in this paper, we have anonymised the entities selected.

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 the findings from our review of financial statements by the seven research topics listed in paragraph 4 of the cover paper:

(a) requirements for classifying cash flows (paragraphs 7–11);

(b) aggregation and disaggregation of cash flow information (paragraphs 12–30)

(c) definitions of cash and cash equivalents (paragraphs 31–36);

(d) effects of non-cash transactions (paragraphs 37–52);

(e) method of reporting operating cash flows (paragraphs 53–56);

(f) information about commonly used cash-flow measures (paragraphs 57–69); and

(g) statement of cash flows for financial institutions (paragraphs 70–72).

5. We include our question to the IASB on page 24.

6. In Appendix A we summarise information about the financial statements that we reviewed.

Requirements for classifying cash flows

7. Our outreach and research activities identified perceived diversity in how entities classify cash flows from some transactions. Paragraph 15 of Agenda Paper 20A and paragraph 11 of Agenda Paper 20B lists some of these transactions.

8. We analysed the classification of some transactions for which stakeholders said that there is a lack of guidance in IAS 7 *Statement of Cash Flows*, such as cash flows from employee stock options, government grants, and property, plant and equipment held for rental. However, we found that it was difficult to identify common practices of the classification of a specific transaction in the statement of cash flows from a limited number of samples because not all sample entities had the same transactions and sometimes a transaction could be aggregated with other items in the presentation or disclosure.

9. After applying IFRS 18 *Presentation and Disclosure in Financial Statements*, the diversity in the classification of interest and dividends is expected to be eliminated[1]. We therefore focused on the classification of income taxes paid in the statement of cash flows, for which IAS 7 requires entities to exercise judgement in its classification even after applying IFRS 18.

10. Paragraph 35 of IAS 7 requires entities to classify cash flows arising from taxes on income in cash flows from operating activities, unless they can be specifically identified with financing and investing activities.

11. We did not identify significant diversity from our sample entities either in non-financial industries or financial industries. Most sample entities both in non-financial industries and financial industries classified income taxes paid within operating activities. Only a few entities classified income taxes paid in multiple activities. Of these entities:

    (a) one entity classified income taxes paid in operating, investing and financing activities; and

    (b) two entities classified income taxes paid in operating and investing activities.

Aggregation and disaggregation of cash flow information

12. In the feedback on the Third Agenda Consultation, some stakeholders said that some information provided in the statement of cash flows should be disaggregated, such as requiring entities to disaggregate capital expenditures as maintenance or growth, working capital changes and net cash flows attributable to the operating, investing and financing activities of discontinued operations. Feedback from our other outreach and research confirmed these comments.

[1] Paragraph 34A of IAS 7 *Statement of Cash Flows* requires entities that do not invest in assets or provide financing to customers as a main business activity to classify interest paid as cash flows from financing activities and interest and dividends received as cash flows from investing activities. Paragraph 33A of IAS 7 requires all entities to classify dividends paid as cash flows from financing activities.

13. Based on these comments from stakeholders, we analysed how entities provide disaggregated information for the following items:

    (a) capital expenditures (paragraphs 14–15);

    (b) cash flow information by reportable segment (paragraphs 16–17);

    (c) composition of working capital (paragraphs 18–20);

    (d) cash flows from discontinued operations (paragraphs 21–24); and

    (e) disaggregation of information about dividends received and paid (paragraphs 25–27);

    (f) disclosure of disaggregated information of line items in the statement of cash flows (paragraphs 28–30).

Capital expenditures

14. Although IAS 7 does not define ‘capital expenditure’ or require entities to disclose the amount of capital expenditure, 20 out of 25 sample non-financial institutions used the term ‘capital expenditure’ or equivalents (such as ‘CAPEX’ ‘or capital investments’) in the context of the statement of cash flows, such as a line item in the statement of cash flows or an item in the calculation of Free Cash Flows (FCF)[2]. Five sample non-financial institutions used a label for similar expenditures that is not clearly similar to ‘capital expenditures’ such as ‘operating investments’.

15. Of these 12 entities, five entities provided disaggregated information on their capital expenditure, such as the amounts by the type of asset (for example, property, plant and equipment and intangible assets). However, none of the sample non-financial institutions disclosed the information of capital expenditure disaggregated by increasing operating capacity and maintaining operating capacity.

[2] We have done this analysis only for non-financial institutions.

Cash flow information by reportable segment

16. 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 users of financial statements (investors) in understanding the financial position and liquidity of an entity.

17. Of the 40 entities analysed, three entities in non-financial industries provided cash flow information by reportable segment or business. However, there was diversity in what information entities provided and the location of information, summarised as follows:

    (a) one entity (Entity A) disclosed the statement of cash flows by its businesses (which are not exactly same as its reportable segments) in the notes to the financial statements;

    (b) one entity (Entity B) disclosed the amount of its FCF by reportable segment in the notes to the financial statements; and

    (c) one entity (Entity C) disclosed the amount of its FCF by reportable segment outside the financial statements.

Composition of working capital

18. IAS 7 does not define ‘working capital’ or require entities to provide specific information about the change in working capital. When an entity reports cash flow from operating activities by using the indirect method, it adjusts profit or loss for the effects of changes during the period in inventories and operating receivables and payables (paragraph 20(a) of IAS 7).

19. Of 24 non-financial institutions that reported cash flows from operating activities by using the indirect method[3], most entities either presented in the statement of cash

[3] One non-financial institution reported cash flows from operating activities by using the direct method (see paragraph 54).

flows or disclosed in the notes as separate items the changes in trade receivables (21 out of 24 entities), inventories (20 out of 24 entities) and trade payables (21 out of 24 entities)[4], which are usually considered as working capital[5]. On the other hand, three entities either presented or disclosed only the change in working capital on an aggregated basis and did not provide any further information.

20. Only one non-financial institution disclosed the changes in the carrying amounts of trade receivables, inventories and trade payables disaggregating changes arising from cash flows and those from other changes.

Cash flows from discontinued operations

21. 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.

22. Of 40 entities analysed, five entities in non-financial industries had discontinued operations. Four of these entities presented separate line items in the statement of cash flows for each of the net cash flows attributable to the operating, investing and financing activities. One entity did not present or disclose information about cash flows from its discontinued operations. No financial institutions analysed had discontinued operations.

23. We observed diversity in how each entity disclosed additional information on cash flows from discontinued operations. Of these four entities:

    (a) one entity (Entity D) disclosed the statement of cash flows from discontinued operations in the notes;

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[4] In some cases, these items were presented or disclosed together with other items (for example, 'Change in trade receivable and contract assets').

[5] We have done this analysis only for non-financial institutions.

(b) one entity (Entity E) provided some narrative information about the cash flows from its discontinued operations;

(c) one entity (Entity F) disclosed the net cash flows attributable to the operating, investing and financing activities of discontinued operations also in the notes, together with other information relating to the discontinued operations; and

(d) one entity (Entity G) did not provide additional information relating to the cash flows from discontinued operations in the notes.

24. There were no entities in our sample that disclosed the net cash flows attributable to the operating, investing and financing activities of discontinued operations in the notes, rather than presented them in the statement of cash flows. However, because not all entities have discontinued operations our sample includes only five entities, four of which are located in Europe. Given the size and concentration of the population we will need to expand our sample to more entities with discontinued operations to better understand current practice.

Disaggregation of information about dividends received and paid

25. Paragraph 31 of IAS 7 requires entities to disclose each of cash flows from interest and dividends received and paid separately. IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose:

(a) according to paragraph B10(a)—for each subsidiary that has non-controlling interests that are material to the reporting entity, dividends paid to non-controlling interests; and

(b) according to paragraph B12(a)—for each joint venture or associate that is material to the reporting entity, dividends received from the joint venture or associate.

26. Regarding the dividends received, 10 out of 25 sample non-financial institutions and 6 out of 15 sample financial institutions presented dividends received from associates and joint ventures and dividends received from other investments separately in the

statement of cash flows. Other entities did not provide such disaggregated information. However, sometimes it was not clear from other information whether these entities received dividends from both associates and joint ventures and other investments or whether immaterial dividends received were aggregated into the total amount of dividends received.

27. The following table summarises the number of the sample entities that provided information about dividends paid in the statement of cash flows. Our analysis shows that the majority of sample entities either presented in the statement of cash flows or disclosed in the notes dividends paid to owners of the parent and dividends paid to non-controlling interests of subsidiaries separately. A few entities only provided information on the total amount of dividends paid to owners of the parent and non-controlling interests of subsidiaries:

	Number of sample non-financial institutions	Number of sample financial institutions
Provide information relating to dividends paid to owners of the parent and dividends paid to non-controlling interests of subsidiaries separately	15	6
Presented in the statement of cash flows	*13*	*6*
Disclosed in the notes	*2*	*0*
Provided only information on the total amount of dividends paid to owners of the parent and non-controlling interests of subsidiaries	2	2
Entities that did not have non-controlling interests or did not recognise dividends to non-controlling interests	5	4
Unclear	3	3
Total	**25**	**15**

Disclosure of disaggregated information of line items in the statement of cash flows

28. It is common practice to present line items labelled 'other' in the statement of profit or loss or statement of financial position and disclose further explanation in the notes[6].

29. It was less common practice in the entities analysed to disclose disaggregated information of line items presented in the statement of cash flows. The following table shows the number of entities that disclose disaggregated information of the line item presented in the statement of cash flows:

	Number of sample non-financial institutions[7]	Number of sample financial institutions
Disaggregation of a line item presented in operating activities (see paragraph 30 for detail)	8	1
Disaggregation of a line item presented in investing activities	3	0
Disaggregation of a line item presented in financing activities	1	0

30. Of the entities that disclosed disaggregated information of a line item in operating activities:

(a) four non-financial institutions presented changes in working capital on an aggregated basis in the statement of cash flows and disclosed disaggregated information on the line item in the notes; and

(b) five non-financial institutions and one financial institution presented a subtotal of some cash flow items in the operating activities (such as 'Cash generated from operations') as the starting point for determining net cash flow from operating activities and disclosed the calculation of the subtotal in the notes.

[6] For example, the Appendix to the Basis for Conclusions on Exposure Draft *General Presentation and Disclosures* showed that 68 out of 100 sample entities analysed by the International Accounting Standards Board (IASB) presented line items labelled 'other' in the statement(s) of financial performance, with further explanation in the notes and 88 out of 100 sample entities analysed by the IASB presented line items labelled 'other' in the statement of financial position, with further explanation in the notes.

[7] Some entities disclosed disaggregated information for more than one line items in the statement of cash flows.

Definitions of cash and cash equivalents

31. We identified through our other outreach and research that there is diversity in practice on what should be classified as cash equivalents. Stakeholders say that the terms in the definition of cash equivalents such as 'short-term', 'highly liquid' and 'insignificant risk' are subjective and interpreted differently. We also heard comments about the maturity basis of 90 days to define cash equivalents.

32. We analysed whether entities include money market funds, commercial papers and bank overdrafts in cash equivalents. The following table summarises the results of our analysis:

	Money market funds	Commercial papers	Bank overdrafts
Included in cash equivalents	8	6	9
Excluded from cash equivalents	4	2	0
Unclear	18	22	21
No disclosure relating to the component of cash equivalents by type of investment provided	10		

33. Diversity was observed on whether money market funds and commercial papers were included in cash equivalents, although the classification was not clear for many entities.

34. There are two factors that could have led to this diversity: (i) diversity in making judgements to assess whether the item meets the definition of cash equivalents for similar items (for example, judgement as to whether the item is 'subject to an insignificant risk of changes in value'); and (ii) diversity in the terms and conditions of items labelled as 'money market funds' or 'commercial papers'. However, it is not clear from the analysis which of these factors led to this diversity.

35. We also analysed what entities consider as 'short-term'. The following table summarises the results of our analysis:

	Number of sample non-financial institutions	Number of sample financial institutions
Three months / 90 days	20*	9
Other	0	2
No information provided	5	4
Total	**25**	**15**

* A few entities disclosed the term with reservations (such as 'generally' or 'typically' three months).

36. In our analysis, diversity was not observed for non-financial institutions. There was some diversity in financial institutions, although the majority seems to use three months or 90 days. One financial institution used a mixture of one month and three months depending on the type of financial asset and another financial institution used one year.

Effects of non-cash transactions

37. IAS 7 includes some requirements for the disclosure of information on non-cash transactions, such as:

(a) paragraph 43 of IAS 7 requires entities to disclose non-cash investing and financing transactions elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities; and

(b) paragraph 44A of IAS 7 requires entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

38. In the feedback on the Third Agenda Consultation, some stakeholders (including some investors) said that:

(a) it is difficult to reconcile the statement of financial position to the statement of cash flows because of non-cash effects of some transactions such as leases, supplier finance arrangements and the factoring of trade receivables;

(b) the IASB should require entities to either present these non-cash effects in the statement of cash flows or disclose them in the notes; and

(c) the IASB should require entities to present a statement of changes in net debt because there is a poor level of compliance with the requirements in paragraphs 44A–44E of IAS 7 (see paragraph 37(b)).

39. Our findings from our other outreach and research also include such comments.

Disclosure of non-cash transactions in a separate note

40. Paragraph 43 of IAS 7 does not include specific requirements for how entities disclose non-cash transactions. We analysed the disclosure of non-cash transactions and observed that it is sometimes challenging to identify the disclosures as they are not disclosed in a single note with indication that they are disclosures of non-cash transactions. Entities might disclose non-cash transactions together with other information. For example:

(a) the acquisition of assets by means of a lease (an example of non-cash transactions shown in paragraph 44(a) of IAS 7)—IFRS 16 *Leases* has a similar requirement (paragraph 53(h) of IFRS 16 requires entities to disclose additions to right-of-use assets). This disclosure is usually provided in the notes for leases, together with other disclosure required by IFRS 16.

(b) the acquisition of an entity by means of an equity issue (an example of non-cash transactions shown in paragraph 44(b) of IAS 7)—IFRS 3 *Business Combination* requires entities to disclose the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, including equity interests of the acquirer (paragraph B64(f) of IFRS 3). This disclosure is usually provided in the notes for business combinations, together with other disclosure required by IFRS 3.

41. Because of the challenge of identifying the relevant disclosures described in paragraph 40 our analysis focused on the non-cash transaction disclosures that have a

title that investors can identify as non-cash transaction disclosure. 6 out of 25 sample non-financial institutions and 4 out of 15 sample financial institutions disclosed non-cash transactions in a separate note with a heading that allows investors to identify it as non-cash transaction disclosure.

42. Even when non-cash transactions were disclosed in a separate note, diversity was observed in the content disclosed by entities. For example, entities disclosed items such as reclassification of construction in progress, additions to property, plant and equipment by capitalised loans and borrowing cost, dividend declared to be distributed (or dividend paid) in non-cash items and dividend declared but not yet paid.

43. None of the entities disclosed supplier finance arrangements[8] or the factoring of trade receivables as a non-cash transaction in the notes we analysed.

Disclosure of non-cash changes in liabilities arising from financing activities

44. Non-cash changes were also disclosed in the notes for the change in liabilities arising from financing activities (see paragraph 37(b)). However, as mentioned in paragraph 38(c), some stakeholders said that there is a poor level of compliance with the requirement to disclose changes in liabilities arising from financing activities.

45. We analysed the disclosure of changes in liabilities arising from financing activities in non-financial institutions. Our analysis shows that 24 out of 25 entities disclosed the change in liabilities arising from financing activities using a reconciliation table[9].

[8] The IASB issued *Supplier Finance Arrangements* in May 2023 that amended IAS 7 *Statement of Cash Flows* to require entities to disclose information about its supplier finance arrangements. The amendment will be effective on 1 January 2024.

[9] Another one entity disclosed the change in net debt in the notes.

46. However, as shown in the table below, the location of the note varied between entities[10]:

	Number of sample entities
Disclosed in a separate note	2
Disclosed with other information related to the statement of cash flows (for example, non-cash transactions)	7
Disclosed with other information other than related to the statement of cash flows (for example, borrowings, financial instruments, etc)	15
Total	**24**

47. Even though there was diversity in the location of the note, entities provided the reconciliation table with showing:

(a) the financing liabilities with disaggregation by type (such as borrowings, bonds and lease liabilities) (23 out of 24 entities). Items shown in the reconciliation table (other than derivatives, because not all derivatives relate to financing activities) can usually be linked to the line item in the statement of financial position directly from the table or using other information provided in the notes.

(b) the non-cash changes in financing liabilities disaggregated with two or more items. The following table summarises the main non-cash changes disclosed in the reconciliation:

	Number of sample entities[11]
Effect of changes in foreign exchange rates*	24
Interest	11
Increase/decrease in lease liabilities	17
Changes in fair values*	13
Changes arising from obtaining or losing control of subsidiaries or other businesses*	12

[10] Of these 24 entities, four entities disclosed the change in lease liabilities separately from change in other liabilities arising from financing activities (such as borrowings). For these four entities, the classification in the table is based on the disclosure of items other than lease liabilities.

[11] Numbers in the table include entities that used the sum of the item in each row and 'other' (such as 'Reclassifications and other')

Reclassification between current and non-current liabilities	5
Reclassification to held for sale	5

* Items shown in paragraph 44B of IAS 7. This paragraph requires entities to provide these items to the extent necessary to satisfy the requirement in paragraph 44A of IAS 7.

48. We have not found significant diversity in practice except for the location of information. However, as our analysis focused on small number of entities with a large market capitalisation (see paragraph A2), we might need to do further research to understand why our results differ from the feedback from stakeholders and their stated experience that compliance is poor.

49. For the financial institutions, we found at least 11 entities disclosed some information on the changes in liabilities arising from financing activities by using a table or narrative information. We could not find the information for other four entities. The diversity might arise because they think that other disclosures provide sufficient information on the entity's financing structure[12].

Disclosure of changes in net debt

50. Although IFRS Accounting Standards does not define 'net debt', net debt is commonly used by entities. As mentioned in paragraph 38(c), some stakeholders said that the IASB should require entities to present a statement of changes in net debt.

51. In the non-financial institutions analysed, 19 out of 25 entities provided the amount of 'net debt' or equivalents (such as 'net financial debt' and 'net cash')[13]. Some entities provide more than one net debt measure.

52. However, it was less common practice to disclose a reconciliation of net debt. Of these 19 entities, seven entities provided a reconciliation table of net debt between its opening and closing balance. In addition, there was diversity in:

[12] See paragraphs BC17 to BC19 of the Basis for Conclusions on IAS 7 for detail.

[13] We have done this analysis only for non-financial institutions.

(a) the location of the disclosure—three entities disclosed the reconciliation only outside the financial statements and four entities disclosed it in the financial statements;

(b) whether to show each item that comprises the net debt separately—two entities disclosed the changes in each item that comprises the net debt separately and five entities disclosed the changes in all items that comprises the net debt on an aggregated basis; and

(c) the granularity of reconciling items in the table.

Reporting cash flows from operating activities

53. Paragraph 18 of IAS 7 requires entities to report cash flows from operating activities using either the direct method or the indirect method. Paragraph 19 of IAS 7 encourages entities to report cash flows from operating activities using the direct method.

54. We analysed the presentation method of cash flows from operating activities. The following table summarises the results of our analysis:

(a) non-financial institutions

	Number of sample entities that used the method in the presentation in the statement of cash flows	Number of sample entities that disclosed the analysis of the cash flows from operating activities using the other method in the notes
Direct method	1	1
Indirect method	24	0
Total	**25**	**1**

(b) financial institutions

	Number of sample entities that used the method in the presentation in the statement of cash flows	Number of sample entities that disclosed the analysis of the cash flows from operating activities using the other method in the notes
Direct method	2	1
Indirect method	13	0
Total	**15**	**1**

55. Significant diversity was not observed from our analysis. Most of the entities analysed used the indirect method to report cash flows from operating activities and only a limited number of entities used the direct method.

56. Of the three entities that used the direct method, two entities disclosed the analysis of the cash flow from operating activities by using the indirect method in the notes. On the other hand, none of the entities that used the indirect method to report cash flows from operating activities disclosed additional information on cash flows from operating activities using the direct method.

Information about commonly used cash flow measures

57. We analysed two types of cash flow measures, that is:

(a) FCF measures—in this analysis, we analysed measures that are subtotals of most (or all) items in operating activities and items classified in other activities (see paragraph 58–65); and

(b) subtotals of items within the cash flow from operating activities (see paragraph 66–69).

FCF measures

58. It was frequently mentioned in our outreach that both investors and preparers use a form of FCF in their cash flow analyses.

Use of FCF measures

59. Our analysis shows that FCF measures are commonly used by non-financial institutions[14]. Some of the entities used multiple FCF measures. None of these entities presented FCF measures as a subtotal in the statement of cash flows and there was diversity in the location of the information provided:

	Number of sample entities/measures
Entities that used FCF measures	18
Used one measure	*13*
Used more than one measures	*5*
FCF measures found	27
Provided only outside the financial statements	*23*
Provided only in the financial statements	*0*
Provided both outside and inside the financial statements	*4*

Calculation of FCF measures

60. Of the 27 entities for which we found FCF measures, 17 of the entities provided a reconciliation table between the measure and the subtotal in the statement of cash flows (see paragraph 63). We analysed the calculation methods of these measures.

61. In principle, FCF measures were calculated as the sum of operating cash flows and so-called capital expenditures. However, there was diversity in the composition of the FCF we analysed. The following table summarises the main items where there was variation in whether they were included in FCF measures[15]:

[14] None of the sample financial institutions provided Free Cash Flows measures.

[15] When possible from related information, we disaggregated the items disclosed by entities in aggregated basis (for example, capital expenditures) to each item in the table.

	Number of measures that include the items in each row in its calculation
Items in the cash flows from operating activities	
Income taxes paid	15
Items in the cash flows from investing activities	
Purchase of property, plant and equipment	11
Purchased of intangible assets	7
Capital expenditures for which it is not clear to which type of asset they relate	4
Disposal of property, plant and equipment	4
Items in the cash flows from financing activities	
Repayment on lease liabilities	7
Items in the cash flows from operating or investing activities	
Interest received	10
Items in the cash flows from operating or financing activities	
Interest paid	11

62. The table below shows some (not all) illustration of calculation methods of FCF measures found in our analysis:

	Variation 1	Variation 2	Variation 3	Variation 4	Variation 5	Variation 6	Variation 7
Operating activities	Total operating cash flows*	Total operating cash flows**	Total operating cash flows*	Total operating cash flows**	Total operating cash flows*	Total operating cash flows*	Total operating cash flows** excluding income taxes paid
Investing activities	Total investing cash flows						
		Purchase of PPEs	Purchase of PPEs and intangible assets	Purchase of PPEs and intangible assets	Purchase of PPEs and intangible assets	Purchase of PPEs and intangible assets	Purchase of PPEs and intangible assets
				Disposal of PPEs			Disposal of PPEs and intangible assets
				Interest received			
						Acquisition of business	
						Purchase/sale of financial assets	
Financing activities					Repayment of lease liabilities	Repayment of lease liabilities	Repayment of lease liabilities
				Interest paid			

(Note) For the sake of simplicity and anonymity, this table does not include all the items used in the actual calculation.

* Includes interest received and paid

** Does not include interest received and paid

Information provided for FCF measures

63. There was also diversity in how entities explain the calculation method of the FCF measures. As shown in the table below, more than half of the FCF measures we found in our analysis were provided with a reconciliation table between the measure and the subtotal in the statement of cash flows, while there were some measures for which entities did not provide a reconciliation table and in this case, the composition of the FCF measure was sometimes not clear:

	Number of measures
Measures for which entities provided a reconciliation table between the measure and the subtotal in the statement of cash flows	17
Provided in the financial statements	*3*
Provided only outside the financial statements	*14*
Measures for which entities provided other information on how the measure was calculated (for example, narrative information)	10
Provided in the financial statements	*1*
Provided only outside the financial statements	*9*
Total	**27**

64. Even if entities provided a reconciliation table between the measure and the subtotal in the statement of cash flows, the starting point of the reconciliation varies between entities:

	Number of measures
Reconciliation started with total operating cash flows	13
Reconciliation started with a subtotal within the operating cash flows	4
Total operating cash flows excluding income taxes paid	*1*
Total operating cash flows from continuing operations excluding income taxes paid	*2*
Total operating cash flows from continuing operations	*1*
Total	**17**

65. We also observed that:

(a) approximately one-third of the measures were provided with an explanation of the measure's characteristics and/or the reason for using the measure; and

(b) two entities provided FCF measures by its reportable segment either within or outside the financial statements (see paragraph 17).

Subtotals within the cash flow from operating activities

66. Although IAS 7 does not specifically require entities to present subtotals within the cash flows from operating activities[16], entities sometimes present additional subtotals of items within the cash flows from operating activities, such as a subtotal labelled as 'Cash generated from operations'.

67. The following table shows that around half of the entities in both non-financial industries and financial industries analysed presented subtotals of items within the cash flow from operating activities in the statement of cash flows. Entities sometimes labelled this type of subtotal as simply 'Subtotal' or just presented the amount without a label:

	Number of sample entities/measures in:	
	Non-financial institutions	Financial institutions
Entities that presented subtotals of items within the cash flow from operating activities	14	6
Used one measure	*11*	*4*
Used more than one measures	*3*	*2*
Number of subtotals found	17	8

68. This type of subtotal can be calculated by excluding some items from total cash flows from operating activities. The following table summarises main items that are excluded from total cash flows from operating activities[17]:

[16] The statement of cash flows shown in the Illustrative Examples accompanied to IAS 7 includes a subtotal labelled as 'Cash generated from operations' within the cash flows from operating activities.

[17] When possible, we disaggregated the items presented by entities in aggregated basis (for example, interest and dividend received) to each item in the table (ie. 'interest received' and 'dividend received').

	Number of measures in sample non-financial institutions	Number of measures in sample financial institutions
Income taxes paid	12	6
Interest received	5	0
Dividends received	4	0
Interest paid	5	0
Change in working capital /operating assets and liabilities	7	6*
Total operating cash flows from discontinued operations	3	0

* Including the line items such as 'change in financial assets/liabilities' and 'change in insurance contracts'.

69. The table below shows some (not all) variations of calculation methods of subtotals of items within the cash flows from operating activities found in our analysis:

Variation 1	Variation 2	Variation 3	Variation 4
Cash flows from operating activities			
…	…	…	…
Subtotal*	**Subtotal***	**Subtotal***	**Subtotal***
		Changes in working capital	
	Interest received		
	Dividends received		
	Interest paid		
Income taxes paid	Income taxes paid	Income taxes paid	
			Total operating cash flows from discontinued operations
Net cash from operating activities	Net cash from operating activities	Net cash from operating activities	Net cash from operating activities

* In this table, we do not specify the label of the subtotals.

The statement of cash flows for financial institutions

70. We heard from stakeholders that the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice.

71. The results of the analysis done for financial institutions are included in the respective sections above. One of differences we observed from the result of our analysis between non-financial institutions and financial institutions was that there are no financial institutions that provide information relating to FCF measures (see paragraph 59).

72. We have not identified any evidence from our analysis that affects the usefulness of the statement of cash flows of financial institutions because the stakeholders' concerns about the statement of cash flows for financial institutions are not related to individual items in the statement of cash flows, but rather they arise from difference in business model between non-financial institutions and financial institutions.

Question to the IASB

Question to 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—Information about financial statements reviewed

A1. We analysed a sample of entities' most recent annual financial statements published by September 2024 (for example, the annual financial statements for the fiscal year ended 31 December 2023 for entities with a 31 December fiscal year-end) and other related documents, such as the MD&A included in the annual report.

A2. Our sample selection process was as follows:

(a) we prepared a list of listed entities that apply IFRS Accounting Standards and have large market capitalization by using S&P Capital IQ[18]—we set a specific threshold for the market capitalization; and

(b) we selected 25 non-financial institutions[19] and 15 financial institutions[20], from the list considering a range of jurisdictions and industries.

A3. Number of sample entities by industry and by region are as follows:

(a) Number of sample entities by industry

	Number of sample entities
Non-financial institutions[21]	25
Consumer-related	*6*
Industrials	*7*
Energy and Utilities	*4*
IT and Communications	*5*
Other non-financial institutions	*3*
Financial institutions	15
Total	**40**

(b) Number of sample entities by region

[18] S&P Capital IQ Pro. Company Type In Public Company And Primary Accounting Standard Includes International And Market Capitalisation [2024/08/30] (£M)>5,000. Retrieved 13 September 2024, from S&P Capital IQ database.

[19] Entities whose sector (based on the sectors according to the Global Industry Classification Standard (GICS®)) is other than Financials.

[20] Entities whose sector (based on the sectors according to GICS®) is Financials. These entities include banks, insurers and entities in other financial services (based on the industry groups according to GICS®).

[21] We selected entities in 10 sectors and aggregated them to five industries in the table.

	Number of sample entities
Europe	19
Asia-Oceania	14
Americas	5
Africa and Middle East	2
Total	**40**

A4. As one of the possible topics in this project is about the statement of cash flows for financial institutions, we have weighted the sample more heavily to financial institutions. However, considering the nature of their businesses, some of the analysis in this agenda paper has been carried out only for non-financial institutions.

A5. In presenting our findings, we have anonymised the entities selected.