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EFRAG draft discussion paper on the statement of cash flows

Cover Note

Objective

- 1 The objectives of this session are to:
 - (a) Present and receive feedback on the main content of EFRAG's Discussion Paper on the statement of cash flows ('the DP'). The DP is still being finalised. EFRAG FRB will be asked to approve the DP at its meeting on 8 October 2024. Accordingly, EFRAG FRB is asked to indicate if there are significant issues with the DP that need to be addressed before the DP is issued.
 - (b) Receive a presentation and provide comments on the contractor's second report which addresses cash flow issues for non-financial entities and financial institutions. The report aims to provide input to EFRAG's DP and will not be published.

EFRAG's discussion paper on the statement of cash flows

- 2 Following the 2021 consultation on EFRAG's research agenda, EFRAG decided in June 2022 to include on its research agenda a project on the statement of cash flows (see [EFRAG feedback statement](#)).
- 3 The reasons for adding this project to the EFRAG proactive agenda were that:
 - (a) the project could be useful for the IASB, since the IASB has also decided to include a project on the statement of cash flows and related matters as research pipeline projects following its Request for Information (RfI) on its Third Agenda Consultation (this project will be started in September); and
 - (b) the project could encompass supply financing arrangements, which was deemed as a suitable EFRAG proactive project.
- 4 EFRAG will issue a DP for public comments that will:
 - (a) List and briefly discuss different alternative objectives/uses of the statement of cash flows;
 - (b) List the issues with current requirements/practice; and
 - (c) Discuss whether the IASB could consider the issues by targeted amendments, or a comprehensive review would be necessary to deal with the issues in a satisfactory manner.
- 5 The EFRAG Secretariat has prepared the first draft of the DP. In the coming weeks, the EFRAG Secretariat will include additional references to relevant literature (including

academic studies and accounting manuals), address the comments received from EFRAG FR TEG and FRB, and incorporate the input provided in the second report of the contractor.

Input received from EFRAG FR TEG

- 6 EFRAG FR TEG provided input on the [first draft of the DP](#) at its 1 July 2024 meeting.
- 7 The comments of EFRAG FR TEG on the first draft are provided in the Appendix to this cover note and will be reflected in the next version of the DP.

Questions for EFRAG FRB

- 8 Are there significant issues related to the content of the DP that need to be addressed before the DP can be issued?

Presentation of the second part of the contractor's report

- 9 As approved by the EFRAG FRB in its June 2023 meeting, EFRAG outsourced work related to the parts of the project. The purpose of the outsourced work is to collect and present input on the objectives and usages of the statement of cash flows (part one, presented at the joint EFRAG FR TEG and EFRAG FRB meeting in December 2023 and subsequently improved) and the issues with the statement of cash flows (presented for EFRAG FR TEG at its 1 July 2024). Input is collected from:
 - (a) academic literature and textbooks/teaching material for financial statements analysts;
 - (b) interviewing relevant persons;
 - (c) attending the roundtable discussions organised by EFRAG¹;
 - (d) attending the meetings organised by EFRAG;
 - (e) through additional activities that are considered relevant by the subcontractor.
- 10 During the 17 July 2024 EFRAG FRB meeting, EFRAG FRB members will receive a presentation of the findings collected by the contractor.

Questions for EFRAG FR TEG

- 11 Does EFRAG FRB have any comments on the contractor's report and presentation?

Next steps

- 12 EFRAG FR TEG will discuss the next version of the DP at its 13 September meeting, and EFRAG FRB will be asked to approve the DP as recommended by EFRAG FR TEG at its 8 October 2024 meeting.

Agenda Papers

- 13 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 07-02 – presentation of the content of the DP;

¹ EFRAG organised three types of roundtables to address different stakeholders' interests: Financial Institutions (17 November 2023), Corporates (27 November and 4 December 2023), Users/academics (1 December 2023). In addition, EFRAG held an additional roundtable on 30 November 2023 for mixed profiles.

- (b) Agenda paper 07-03 – presentation of the contractor on the issues identified with how the statement of cash flows is currently prepared under IAS 7 *Statement of Cash Flows*; and
- (c) Agenda paper 07-04 – the draft report of the contractor on the issues identified with how the statement of cash flows is currently prepared under IAS 7.

Appendix – EFRAG FR TEG’s comments on the first draft of the DP

- 14 Input and suggestions of EFRAG FR TEG EFRAG FR TEG in response to the [first version of the DP](#). The input is categorised by the chapters that it relates to.

General comments

- 15 Include examples to engage users.

Chapter 2 and 3 Objectives and usages

- 16 Merge Chapters 2 and 3 related to the objectives and usages of the statement of cash flows.

Chapter 4 Issues for non-financial entities

- 17 Ensure issues are described in a way that it does not indicate that EFRAG has taken a position;
- 18 Separate sections on included/excluded transactions into ‘cash and cash equivalents’, ‘agent/principal issues’, ‘and non-cash transactions’;
- 19 Acknowledge that a less prescriptive definition of cash and cash equivalents allows preparers to better reflect their business;
- 20 Acknowledge that including non-cash transactions in the statement of cash flows could confuse users, as this information is already available in other financial statements;
- 21 Acknowledge that only capitalised expenses should be considered capital expenditures to ensure consistency across financial statements;
- 22 Acknowledge that some disclosures are more useful to be presented in the statement of profit or loss or statement of financial position, rather than the statement of cash flows (e.g., information on accruals represented by contract assets and contract liabilities, liquidity disclosures under IFRS 7);
- 23 Include an example of supplier finance arrangements affecting the statement of cash flows in the disclosures section;
- 24 Prioritise issues by presenting them in order of importance. For example, direct/indirect method and aggregation/disaggregation should be placed lower on the list of issues, as they are less important compared to other issues;
- 25 Differentiate the impact of direct/indirect methods for different types of stakeholders;
- 26 Present cohesiveness issues in a more balanced way and acknowledge that users may prefer cohesiveness between the statement of profit or loss and the statement of cash flows, especially when they are used to the categories in the statement of profit or loss as required by IFRS 18. Contrarily, it should be acknowledged that the statement of cash flows and the statement of financial position serve different purposes;
- 27 Include a suggestion that instead of defining terms like free cash flows, require entities provide disclosures and reconciliation of these measures (e.g., free cash flows), similar to the MPM requirements in IFRS 18.

Chapter 5: Alternatives to the statement of cash flows

- 28 Include the statement of changes in working capital, changes in other liquid assets and changes in assets used in liquidity management as alternatives to the statement of cash flows.

Chapter 6: The statement of cash flows from financial institutions

- 29 Consider the EFRAG's 2015 DP on the usefulness of statements of cash flows for financial institutions;
- 30 In September 2024, consult FIWG and IAWG for the financial institutions section, and in particular to explore additional alternatives for the statement of cash flows;
- 31 For banks and insurance companies, the statement of cash flows is not the most useful for predicting dividends, (for banks the ECB needs to approve them based on financial ratios and for insurance companies the ability to pay dividends is based on other regulatory frameworks than IFRS);
- 32 Include a reference in the business model section to IFRS 18 regarding the requirements to assess the main business activity and the reclassification of some items from financing or investing categories into the operating category;
- 33 Acknowledge the disadvantages of repeating information included in other reports with another purpose and framework;
- 34 Include a reference to an academic paper on the value relevance of the statement of cash flows from banks;
- 35 Acknowledge that some academic evidence suggests that the statement of cash flows for banks has some value relevance.