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Statement of Cash Flows of Financial Institutions – TEG advice on way forward

Objective of the session

- 1 In July 2015, EFRAG published a paper to discuss the relevance of the Statement of Cash Flows for financial institutions and investigate alternatives that could either supplement or replace the information currently portrayed by these entities. In the context of its Disclosure Initiative, the IASB may revisit some of the requirements in IAS 7 Statement of Cash Flows.
- 2 The objective of the session is to agree on the EFRAG TEG advice on the way forward with the project.

Summary of the discussion paper

- 3 The discussion paper:
 - (a) illustrated the general requirements in IAS 7, the intended benefits of the statement of cash flows and their specific application to financial institutions including arguments in favour and against the relevance for banks and insurance companies.
 - (b) discusses two broad alternatives focused on:
 - (i) replacing the statement of cash flows for financial institutions with alternative disclosures in the area of liquidity, changes in assets and liabilities which could also include reconciliations to flows to capital; and
 - (ii) modification of some of the IAS 7 requirements with possible improvements achieved through removing the categories, reporting separately tax cash flows or disclosing some flows on gross basis.
 - (c) concluded that for insurance companies it might be premature to suggest changes before the outcomes of the insurance contracts project are known.

Summary of respondents

- 4 Eight comment letters were received in response to the discussion paper. (The one from ANC is still subject to the ANC Board approval which will take place on 13 May). All respondents shared concerns about the relevance of the statement of cash flows for financial institutions and thus were supportive for the EFRAG's proactive initiative. Some respondents noted that the definition of financial institution for the purposes of the DP was too narrow and could for example also include leasing companies and non-life insurance companies.
- 5 All respondents providing comments regarding insurance companies advocated for addressing the need for changes only when new requirements for insurance contracts are known.

- 6 Generally, the views on how the concerns about the relevance of the CF statement should be addressed diverged among respondents. There was roughly similar support for the alternative of replacing the statement and the alternative of improving the existing requirements. Nevertheless the comments received provide valuable inputs for further research.

TEG advice on the way forward

- 7 EFRAG TEG generally considered that the usefulness of the information provided by the cash flow statement should be further explored from perspective of users and preparers. This could involve differences in how cash flow information for financial institutions is used in comparison with cash flow information for non-financial institutions. This would address the comments received from constituents about obtaining more ‘evidence’ of the issue and the request to understand better users’ needs.
- 8 EFRAG TEG suggested a review of existing liquidity risk management disclosure practices by banks including those focused on sources and uses of funds. When considering improvements, overlaps with Basel III disclosures should be avoided and differences in banking business models should be taken into account. This would be in line with the constituents’ views that it would not be appropriate for the IASB to replicate prudential disclosures because of different consolidation scope. It would also address the comments from constituents that the relevance of the CF statement may depend on the business model of banks
- 9 Some constituents proposed an in-depth analysis of several financial institutions’ cash flow statements. EFRAG TEG explained that this should cover differences in what is being reported and include identification of better and worse practices and issues in compliance with IAS 7 requirements.
- 10 EFRAG TEG recommended that in going forward with the project EFRAG Secretariat liaise with the French and German standard setters ANC and DRSG who have started their own projects in this area and offered cooperation to EFRAG.

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| 11 Does the EFRAG Board have additional suggestions for the next steps on the project? |
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