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Scope of EFRAG's proactive research project on the statement of cash flows and related matters

Issues Paper

Objective

- 1 The purpose of this session is for EFRAG FR TEG to decide how it will recommend the EFRAG FRB to scope EFRAG's proactive research project on the statement of cash flows and related matters.

Background

- 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](#). When discussing EFRAG's proactive research agenda, reasons for the EFRAG Secretariat to recommend the statement of cash flows being added to the EFRAG proactive agenda were that:
 - (a) The project could be useful for the IASB, as 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.
 - (b) The project could encompass supply financing arrangements, which was deemed as a suitable EFRAG proactive project.
- 3 The EFRAG Secretariat also noted that it would be necessary to have a targeted scope of the project that will allow the completion before the IASB commences its research.
- 4 Many respondents to the IASB's RfI considered that it was a high priority to solve existing deficiencies though they had mixed views about the nature and extent of those deficiencies. For instance, some supported a comprehensive review of IAS 7 *Statement of Cash Flows* while other respondents were in favour of a targeted approach on specific issues. Those issues include both presentation issues (such as the classification of cash flows into operating, investing and financing activities) and other issues (such as improved disclosures about non-cash financing). Also, the project could include issues relating to the statement of cash flows that arose in the Primary Financial Statements project but were outside the scope of that project. When discussing the projects to include on the IASB's 2022–2026 agenda, the IASB's staff considered that the scope of such a project should initially include all matters raised by respondents and related to the statement of cash flows. In the research phase of the project, they could consider those issues further, to determine whether all such issues should remain within the project's scope.
- 5 In the [Feedback Statement on the Third Agenda Consultation](#), published in July 2022, the IASB noted that as part of its project *Statement of Cash Flows and Related Matters*, the IASB will consider whether the project should aim to review IAS 7

comprehensively or make more targeted improvements. The IASB's feedback statement referred to the issues identified by the respondents to the RfI (see paragraph 4 above) as issues that could be considered in the project.

- 6 When discussing the project at the May 2022 EFRAG FR TEG meeting, the comments were made that:
 - (a) The project should also include disclosures (and should accordingly perhaps be renamed 'cash flow reporting');
 - (b) The following topics should be considered:
 - (i) the definition of cash;
 - (ii) redefining classification principles (e.g., for government grants);
 - (iii) dual characteristics transactions (purchase of an asset with deferred payment terms); and
 - (iv) information on transactions that are not included in the statement of cash flows (non-cash transactions).
 - (c) It would be important to coordinate the work with the IASB to ensure that the work could be used by the IASB and to avoid the organisations to duplicate each other's work. This comment was also made when the EFRAG FRB approved including a project on cash flows on EFRAG's research agenda.
- 7 When approving to include a project on cash flows to the EFRAG proactive research agenda at its June 2022 meeting, the EFRAG FRB it was agreed that the EFRAG Secretariat should work closely with the IASB to ensure no duplication and only value-adding efforts. [We have reach out to the IASB to understand whether they the IASB staff has done any initial work – but have not received a reply yet].
- 8 In 2015, EFRAG published the paper [The Statement of Cash Flows: Issues for Financial Institutions](#). The related [feedback statement](#) was published in 2016.
- 9 Shortly after, the UK FRC published the staff discussion paper [Improving the Statement of Cash Flows](#). The related [feedback statement](#) was published in 2017.
- 10 Input received in relation to these consultations will, among other things, be considered in any project EFRAG would undertake on cash flows to the extent this would be relevant.
- 11 In April 2023, EFRAG FIWG discussed the relevance and validity of the feedback received in 2016 in response to the EFRAG's discussion paper *The Statement of Cash Flows: Issues for Financial Institutions*.
- 12 EFRAG FIWG members confirmed concerns about the relevance of the statement of cash flows for financial institutions (both banks and other financial institutions) and noted that management and analysts' attention is mainly focused on liquidity risk that cannot be inferred from the statement of cash flows (as currently prepared).
- 13 Members also considered that for financial institutions the statement of cash flows could be replaced by more detailed disclosures on liquidity risk (e.g., current regulatory disclosure and / or a regulatory capital statement).
- 14 Regarding conglomerates, it was noted that the relevance of the statement of cash flows relates to the nature of the business and activities carried on by the conglomerate.
- 15 In terms of financial institutions being a user of financial information, it was noted that when carrying out lending activities, banks are interested in understanding stable cash flows, regardless of their classification (i.e., operating, financing, and investing).

- 16 In terms of scope of the project, it was also noted that EFRAG should consider issues raised during other projects, such as the project on Primary Financial Statements.

Possible manners to scope EFRAG's project on cash flows

- 17 As EFRAG's project on cash flows should be ready for the initial phase of the IASB's project, the EFRAG Secretariat notes that there would be limits to the scope of EFRAG's project. The EFRAG Secretariat considers that possible projects could be (due to resource constraints, only one of the following project could be chosen – and the scope of that project would also have to take resource constraints into account):
- (a) A wider project on users' input on:
 - (i) what the purpose of the statement of cash flows should be; and
 - (ii) how the statement is used/could be used and issues with how statements of cash flows are currently prepared (i.e., issues with IAS 7).(for the other suggested possible projects, the outreach to users on the objective of the statement of cash flows is suggested to be more limited).
 - (b) A project on how to achieve consistency between the statement of cash flows and the changes in other primary statements resulting from the project on Primary Financial Statements. (To the extent resources would permit, this could be combined with the project described under (a)).
 - (c) A targeted project on how to present supplier finance arrangements and similar arrangements in the statement of cash flows.
 - (d) A targeted project on how disclosures related to cash flows can be improved (e.g., on unusual items of cash flows, on how cash is managed, 'future-oriented' cash outflows, working capital supply chain financing and future payments). Such a project could thus represent some 'quick fixes' the IASB could consider.
 - (e) A project listing of the issues with the statement of cash flows that EFRAG is aware of and approaches to deal with these issues (to receive feedback from a broad range of constituents on these issues). Due to time limitations, the approaches to deal with the various issues may in many cases only be described in a general manner. The issues that thus could be considered are:
 - (i) What should be the purpose of the statement of cash flows (e.g., is the purpose to help predicting future cash flows/determining the value of an entity (e.g., by providing information to be useful for free cash flow estimations) or to provide information on liquidity, and which presentation (direct or indirect) would be most useful for the purpose of the statement of cash flows)?
 - (ii) What is/should be cash and cash equivalents (e.g., certain crypto currencies (stable coins pegged to fiat currencies), for demand deposits with restrictions, cash pool arrangements including multi-currency arrangements)?
 - (iii) What are/should be considered cash transactions and what are/should be considered non-cash transactions (e.g., purchase through a bank and supplier finance arrangements)?
 - (iv) How should certain transactions be classified – what is/should be operating activity, investing activity and financing activity? (e.g., government grants). Should 'cohesiveness' with the presentation

following from the project on Primary Financial Statements be considered? Should options be removed?

- (v) Are variations in the statement of cash flows necessary (e.g., for financial institutions)/is the statement of cash flows useful for all types of entities? If cash flow statements should be different for depending on the industry in which an entity is operating, how should statements of cash flows be prepared for conglomerates?
- (vi) What information is currently missing and to what extent can these deficiencies be solved by improving disclosures (see also (d) above)?
- (vii) What can be done to help users reconcile cash flows with other primary financial statements and the notes (including information on non-cash transactions)?
- (viii) Can digitalisation reduce costs of preparers and hence perhaps result in another cost/benefit assessment of the use of the direct method of presenting cash flows from operating activities?

Questions for EFRAG FR TEG

- 18 Would EFRAG FR TEG suggests alternative scopes of EFRAG's project on cash flows than those listed in paragraph 17 above (also considering the input received from the EFRAG User Panel on 10 May 2023)?
- 19 What does EFRAG FR TEG consider should be the scope of EFRAG's project on cash flows?
- 20 If EFRAG FR TEG would favour a project as that listed in paragraph 17(e), the EFRAG FR TEG will at a later stage have to further discuss the selection of issues. This stage will involve considering the submissions to the IFRS Interpretations Committee in relation to IAS 7. Does EFRAG FR TEG already have some initial input to provide on which issues the project should consider (are there some of the issues listed that should not be included or additional issues that should be added)?