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## **EFRAG's proactive project on the statement of cash flows**

### **Cover Note**

#### **Objective**

- 1 The objectives of this session are:
  - (a) To receive a presentation from the contractor (Zielke Research Consult GmbH) that will assist EFRAG on its proactive research project on cash flow reporting, focusing on the part of EFRAG's Discussion Paper on the objectives/uses of the statement of cash flows.
  - (b) To receive EFRAG FRB and FR TEG members' feedback following their review of the first part of the report.

#### **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 (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; and
  - (b) the project could encompass supply financing arrangements, which was deemed as a suitable EFRAG proactive project.
- 4 EFRAG will issue a Discussion Paper for public comments that will:
  - (a) List and briefly discuss different alternative objectives/uses of the statement of cash flows. This will include listing alternatives to a statement explaining changes in cash and cash equivalents. Such alternatives include only analysing changes in cash (and not cash equivalents), changes in financial liabilities, changes in working capital and changes in net debt.
  - (b) List the issues with current requirements/practice. The issues would be categorised/labelled according to which use/object of the statement of cash flows (in (a)) they would be related to.

- (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.

### Objectives of the first part of the contractor's report

- 5 As approved by the EFRAG FRB in its June 2023 meeting, EFRAG outsourced work related to the parts of the project listed in (a) and (b). The purpose of the outsourced work is to collect and present input for the two parts. Input should be collected from:
- (a) academic literature and textbooks/teaching material for financial statements analysts;
  - (b) interviewing relevant persons;
  - (c) attending the roundtable discussions organised by EFRAG<sup>1</sup>;
  - (d) attending the meetings organised by EFRAG;
  - (e) through additional activities that are considered relevant by the subcontractor.
- 6 The first report of the contractor should thus identify the various perceived objectives of the statement of cash flows and how the statement of cash flows is currently used.
- 7 The contractor's report should be written and structured in a way that is most useful for EFRAG's Discussion Paper. However, the section(s) in EFRAG's Discussion Paper on the objectives and uses of the statement of cash flows will be developed by EFRAG, using the input from the contractor. The report of the contractor does therefore not reflect the first part of EFRAG's Discussion Paper.
- 8 EFRAG has collected initial feedback on the topics listed in paragraph 5 above, which can be found in the **Appendix** of this cover note.
- 9 A more detailed overview of the scope of the first part of the project, can be found in the [open call for tender](#) (part B.2.), as issued by EFRAG.

#### Questions for EFRAG FRB and EFRAG FR TEG

- 10 Do EFRAG FRB and FR TEG members find the first part of the contractor's report comprehensive with the right level of detail?
- 11 Do EFRAG FRB and FR TEG members have additional comments on the objectives/uses of the statement of cash flows included in the contractor's report?

### Next steps

#### *Contractor's report on the objectives/uses of the statement of cash flows*

- 12 The input received from EFRAG FRB and FR TEG, together with EFRAG Secretariat's comments will be reflected in the contractor's report on the objectives/uses of the statement of cash flows.
- 13 The final version of the report on the objectives of the statement of cash flows and how the statement of cash flows is used, will be submitted to EFRAG by 30 January 2024.

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<sup>1</sup> EFRAG has 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.

*Contractor's report on the issues with the statement of cash flows*

- 14 The contractor's report on the issues with the statement of cash flows is to be presented for EFRAG FR TEG and the EFRAG FRB in April 2024.

**Agenda Papers**

- 15 In addition to this cover note, the agenda paper 10-02 – *Draft Contractor's report – Objectives/uses of the statement of cash flows* has been provided for this session.

## **Appendix: Identified objectives/uses of statement of cash flows identified by EFRAG FR TEG and EFRAG working groups**

### **Objectives of the statement of cash flows**

16 The following views have been expressed:

- (a) there is no primary objective for the statement of cash flows. It shows where an entity got its money from and what it did with the money;
- (b) the objective is to explain why cash has not changed with the net profit of the period;
- (c) the objective is to provide information on liquidity (specifically insurance companies);
- (d) the objective is to depict the 'rhythm' of the operating, investing and financing cash flows;
- (e) the objective is to describe an entity's business model;
- (f) the objective is to provide information to be used for discounted cash flows evaluations;
- (g) the objective is to offer a collection of information that can be used by users in their own analyses on e.g., credit worthiness; and
- (h) for financial institutions (banks), the objective should be to provide information on liquidity risk (as the statement of financial position may not reflect problems with liquidity).
- (i) provide information on the capability to invest and to pay dividends.

### **How the statement of cash flows is used**

17 The following uses were mentioned:

- (a) to assess management's stewardship — how the management is dealing with the cash the entity is generating (CapEx policies, capital policies, what is financed, impact on statement of financial position, free cash flow generated compared to invested capital);
- (b) to help reconcile movements in net debt (e.g., what is repayments and what is interest) to calculate cash yield numbers);
- (c) to help reconcile cash movements;
- (d) to assess liquidity;

- (e) to understand working capital dynamics (e.g., how much working capital is absorbed as the entity grows);
- (f) to compare CapEx with depreciations (to assess whether entities are growing – and for corrections to discounted cash flows projections). It is used to assess what profit is realised (and not e.g., changes in fair values); and
- (g) it is currently not used much for banks - for internal purposes/by users/by regulators.