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Accounting Standards Committee of Germany

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Berlin, 14 July 2025

Dear Mr Klinz,

Re: EFRAG Discussion Paper: *The Statement of Cash Flows – Objectives, Usages and Issues*

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to contribute to EFRAG's Discussion Paper (herein referred to as 'DP') on *The Statement of Cash Flows – Objectives, Usages and Issues*, issued by EFRAG on 22 November 2024. We appreciate the opportunity to comment on the DP.

EFRAG has developed a very comprehensive discussion paper on the statement of cash flows, which highlights numerous issues concerning its informational value. However, this also represents a challenge, as it proved time-consuming to engage with all the topics raised—particularly because they are presented side by side with equal emphasis. A more focused approach, addressing fewer issues and ranking them by importance, might have resulted in a clearer and more manageable basis for discussion.

Overall, we would caution against recommending to the International Accounting Standards Board (IASB) to attempt to resolve all identified issues simultaneously. In our view, there is a risk that such a project, even if not declared a comprehensive review, could take several years to complete and, due to its inherent complexity—particularly the potential for conflicting objectives among the proposed solutions—may ultimately prove unsuccessful.

We further consider that the statement of cash flows is not fundamentally flawed and therefore does not warrant a comprehensive review (Question 7). Accordingly, we recommend targeted improvements to IAS 7 that focus on addressing genuine information gaps—areas where users lack essential insights—rather than on aspects where information is already available, even if it requires additional processing by users, regardless of where it appears within the financial statements.

With regard to Question 1, we have particular reservations against the extensive subdivision of the stated objectives in the DP, which makes them difficult to use as a practical basis for decision making. In addition, certain objectives appear to overlap or conflicting, thereby reducing their effectiveness. If the intention is to continue using objectives as a foundation for assessing the merits of potential solutions, we would strongly advocate for a meaningful simplification.

For this reason—and because our own discussions within the ASCG quickly risked becoming overly focused on assigning specific objectives to potential solutions for individual issues—we have chosen not to comment on every issue presented in the DP, particularly with regard to Question 3. Instead, we outline our general position on the main categories and address specific details only where we believe they merit exceptional treatment, differing from their respective main category. At times, it was also unclear from the DP how EFRAG had assessed these objectives for the individual issues. Furthermore, the alignment with the Qualitative Characteristics seemed inconsistent (e.g., comparability is initially listed as a Qualitative Characteristic, but later it is categorized under Objective 5).

Regarding the statement of cash flows for non-financial entities (Question 3 and 4), we caution against efforts to achieve full alignment/cohesiveness with other primary financial statements—particularly the statement of profit or loss—as such efforts risk undermining the distinct purpose of the statement of cash flows. Furthermore, we strongly support focusing the statement of cash flows on actual changes in cash and cash equivalents and caution against including cash flows of an agent or hypothetical/non-cash transactions, as this would fundamentally alter the statement's purpose. The current definitions of cash and cash equivalents are considered effective, while the inclusion of items such as cryptocurrencies warrants broader conceptual deliberation. We do not support the standardisation of metrics such as Free Cash Flow, net debt, and working capital due to practical limitations and the potential reduction in relevance and comparability. Finally, the ASCG advocates retaining flexibility in the presentation of operating cash flows and expresses scepticism towards additional disclosure or disaggregation requirements that may increase complexity without offering clear benefits to users. With regard to the disaggregation of dividends to controlling and non-controlling interests (NCIs), the ASCG supports this approach, as it enhances transparency around liquidity outflows to NCIs and provides a clearer view of equity transfers within the group. This information also complements the statement of changes in equity by providing a liquidity perspective, thereby reducing users' reliance on external estimates.

As previously noted, we consider the statement of cash flows fundamentally sound and therefore do not support replacing it with the alternatives proposed in Chapter 4 of the DP (Question 5). Additionally, we only got limited support supplementing the statement of cash flows with a reconciliation of net debt beyond the current requirements of IAS 7.44A–E, or with a separate statement of changes in working capital, as the additional value is considered limited, the preparation effort potentially substantial, and much of the information may already be derived from existing financial statements.

Regarding the statement of cash flows for financial institutions, we have concerns about its overall usefulness; however, given the challenges of a scope exemption for certain industries, we support retaining the current requirements and recommend changes only if there is clear evidence that users are missing relevant information (Question 6).

We provide our detailed responses to EFRAG's questions to constituents in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Jan-Robert Kirchner (kirchner@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the DP

Question 1: Objectives of the statement of cash flows

Chapter 2 of this DP lists objectives of the statement of cash flows, the most important being:
• evaluating the changes in net assets (Objective 1);
  o understanding the entity's business (Objective 1a);
  o assessing closeness to cash (Objective 1b.1);
  o assessing current performance of the entity (Objective 1b.2);
• assessing the entity's financial structure (Objective 2);
  o assessing liquidity (Objective 2a);
  o assessing solvency (Objective 2b);
• assessing the entity's ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities (Objective 3);
• assessing the ability of the entity to generate cash and cash equivalents (Objective 4);
• comparing entities using different accounting treatments for the same transactions (Objective 5);
• assessing management's stewardship (Objective 6);
  o assessing management's general performance (Objective 6a); and
  o assessing management's cash management (Objective 6b).
Do you agree with these objectives? Do you think there should be additional objectives?
As indicated in Chapter 4 (3!), solutions to some of the current issues with how the statement of cash flows is prepared in accordance with IAS 7 may benefit the usefulness of the statement of cash flows for some objectives while harm the usefulness of the statement for other objectives.
Do you think that some objectives of the statement of cash flows are more important than others? If so, which are more/less important?

We **generally agree** with the objectives of the statement of cash flows as outlined in the discussion paper and did not identify any additional objectives beyond those presented. Furthermore, we have some concerns regarding the suitability of these objectives for assessing whether IAS 7 should be amended, and if so, the extent to which they contribute to determining the most appropriate approach to resolving the issues identified. The reasons for this are outlined below.

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Feedback on the individual objectives

We consider Objective 1 (including its two sub-objectives, 1a and 1b) and Objective 2 (including the sub-objectives of evaluating liquidity (Objective 2a) and solvency (Objective 2b)) to be generally comprehensible. In our discussions, particular emphasis was placed on the importance of assessing a company's financial structure for both equity and debt analysts. However, we critically question the added value of the cash flow statement compared to the information already provided in the statement of financial position and the statement of profit or loss—especially given that the statement of financial position already provides useful indications of future liquidity (e.g., through working capital).

Objective 3 focuses on the extent to which the cash flow statement can be used to assess a company's ability to influence the amount and timing of cash flows in order to adapt to changing circumstances and opportunities. We discussed whether this objective truly aligns with the current purpose of a cash flow statement, particularly since companies have various financing options, such as factoring or reverse factoring. In light of this, we would like to express our concerns that Objective 3 may not fully address the core issue. A more meaningful focus might be on assessing whether a company maintains an excessively high level of cash and cash equivalents, potentially signalling inefficiencies in capital allocation that could otherwise be directed toward value-enhancing activities. Overall, we view Objective 3, in its current form, as relatively low in importance.

Objective 4 focuses on the extent to which the cash flow statement can be used to assess a company's ability to generate cash and cash equivalents. During our discussion, we noted that the cash flow statement appears to provide useful information for some business models but not for others (e.g., financial institutions). Furthermore, the EFRAG DP cites empirical evidence that the usefulness of this information appears to be context dependent. For instance, during periods of financial distress, the cash flow statement provides more valuable insights for predicting future solvency than earnings figures (see para. 2.49). Before proposing any changes to the cash flow statement—at least in relation to Objective 4—it may be beneficial to first identify the specific reasons underlying this context dependency.

It should be noted that potential changes to the cash flow statement may constitute improvements only under certain conditions, and not in a general sense.

We also find Objectives 5 and 6 to be comprehensible.

Our discussions revealed that, particularly from a user perspective, Objectives 4, 5, and 6 may be regarded as more important than Objectives 1, 2, and 3.

Assessing a potential hierarchy of objectives

As previously stated, **we generally agree** with each of the objectives identified in the DP. However, while it is understandable to use these objectives as a basis for evaluating the issues and potential solutions, we see some problems with this approach.

In our opinion, the discussion of the objectives of the cash flow statement overlooks the extent to which these objectives may already be fulfilled by the other primary financial statements. We believe this aspect remains underrepresented in the discussion paper. To effectively meet the needs of stakeholders, it is crucial that the cash flow statement offers added value beyond what is provided by the other primary financial statements. The same reasoning should be applied to any potential amendments to IAS 7.

In addition, we find that the formulated Objectives 1-6 (including the sub-objectives) are highly subdivided, leading to some overlap. Due to the numerous objectives and their overlaps, establishing a clear hierarchy of objectives that can later be used to evaluate potential solutions to the identified issues is challenging.

Furthermore, with reference to Chapter 3, Question 1 highlights that solutions to some of the current issues with how the statement of cash flows is prepared under IAS 7 may enhance its usefulness for certain objectives while diminishing it for others. Additional complexity and dependencies arise because potential solutions to the issues identified in Chapter 3 often constrain the solutions available for other issues. In this context, the question arises whether the objectives could be streamlined and presented more clearly so that they can serve as a meaningful basis for selecting solutions.

In its current form, we **do not support** the use of the objectives for weighing up the issues and possible solutions.

Question 2: Usages of the statement of cash flows
In Chapter 2 the DP lists manners in which the statement of cash flows is used by primary users of the financial statements. Are there additional manners of using the statement of cash flows than those listed?

We **did not identify** any additional uses for the statement of cash flows beyond those already listed.

Question 3: Issues with the statement of cash flows for non-financial entities
Chapter 3 of the DP lists issues with how the statement of cash flows is prepared in accordance with IAS 7 and links these issues to the objectives they affect and the qualitative characteristics of useful financial information affected. EFRAG has not made an assessment of the validity of the various stated issues. Do you agree with the issues listed? Do you think there are additional issues than those listed? If so, which? How would you rate the various issues identified (low, medium or high priority)? Some of the issues identified in relation to cash flows of an agent, excluding non-cash transactions from the statement, disaggregation of information and cohesiveness with other primary financial statements could either be addressed by amending the requirements on the information to be displayed in the statement of cash flows or by introducing additional note disclosure requirements. For the issues you consider that should be addressed, how do you consider they would be best addressed (via changes to the information presented in the statement of cash flows or additional note disclosures)?

We **generally agree** that, when examined on an individual basis, each issue reveals certain inadequacies in the cash flow statement under IAS 7. However, it is important to recognise that financial statements are designed to address a broad range of stakeholder information needs and may often appear inadequate when evaluated from a single perspective.

As stated in our response to Question 1, we have concerns regarding the extensive subdivision of the stated objectives and the resulting overlaps. For this reason, and because our discussions quickly risked becoming overly focused on mapping specific objectives with potential solutions to individual issues, we have chosen not to comment on every issue presented separately. Instead, we outline our general position on the main categories and address specific matters only where, in our view, they warrant exceptional consideration beyond their respective category.

Detailed feedback on the issues

1) Cohesiveness with other primary financial statements

We begin with cohesiveness with other primary financial statements, as we believe this issue is closely linked to many others and should be addressed first. We do have doubts whether true alignment between the statement of financial position, the statement of profit and loss and the statement of cash flows is achievable—particularly given past attempts to harmonize these statements, which ultimately failed due to their complexity and the differing objectives of each statement.

In our discussions, the question was raised whether the statement of cash flows adds value specifically because it provides decision-useful information that differs from the other financial statements. Some argued that striving for greater cohesiveness across statements might reduce this value. The statement of cash flows serves a distinct role by focusing on actual cash movements, providing insights into liquidity, solvency, and the ability to generate cash. If forced to align too closely with the statement of profit and loss, it could lose this independent function by being overly tied to accrual-based classifications, thus diminishing its effectiveness for users. Therefore, any changes to the statement of cash flows aimed at achieving stronger cohesion with the statement of profit or loss—such as the inclusion of hypothetical cash flows or additional disclosures, for example as discussed in the context of non-cash transactions—are viewed critically, as the underlying principles of these statements differ significantly.

Furthermore, when "… developing IFRS 18 the IASB considered aligning the structure of the statement of profit or loss with the structure of the statement of cash flows when doing so did not conflict with the objectives of each statement. However, the IASB prioritised the objectives of each of the primary financial statements over alignment between those statements." (IFRS 18.BC86).

In light of the aforementioned, we **do not support** efforts to <u>increase alignment between the statement of cash flows and the statement of profit or loss</u>—specifically with regard to harmonising the categories of operating, investing, and financing activities as introduced in IFRS 18. Nevertheless, we strongly support a clear linguistic distinction between the terms 'operating', 'investing', and 'financing' as used in the statement of profit or loss and the statement of cash flows. This is one of the reasons why we support targeted improvements (see Question 7) but do not consider a comprehensive review of IAS 7 necessary.

With regard to a stronger alignment with the statement of financial position—for example, by providing a reconciliation to working capital or net debt—we refer to our response to Question 5.

2) Definitions of 'cash' and 'cash equivalents'

In general, we consider the existing definitions of cash and cash equivalents to be acceptable and well established in practice. We therefore **support** retaining the current definitions of cash and cash equivalents in IAS 7.6 and IAS 7.7.

Additionally, the Financial Reporting Technical Committee (FR TC) of the ASCG engaged in a discussion on whether cryptocurrencies should qualify as cash equivalents. It was noted that certain cryptocurrencies, such as Bitcoin, are already used in practice as a means of payment, which could, in principle, support their classification as cash equivalents. However, concerns were raised about the large number of cryptocurrencies and other assets that are easily convertible into cash but should not be classified as cash equivalents. Furthermore, it was pointed out that certain highly volatile national currencies continue to be classified as cash in accordance with IAS 7, which could be viewed as contradictory, given that cash equivalents must be subject to an insignificant risk of changes in value according to IAS 7.6 and IAS 7.7.

During the discussion, it was noted that cryptocurrencies do not meet the definition of financial instruments under IAS 32.11. Depending on the intended holding purpose, they are generally accounted for either as intangible assets in accordance with IAS 38 (if held for the long term) or as inventory under IAS 2 (if held for short-term purposes). Before considering the recognition of cryptocurrencies as cash equivalents, the IASB should first assess whether and under what conditions cryptocurrencies could qualify as financial instruments, which would likely require a revision of the definition of financial instruments in IAS 32.11.

We argue that the discussion of cryptocurrencies and their potential classification as cash equivalents should be framed within the context of ongoing technological and macroeconomic developments. This, in turn, raises the broader question of the informational value and purpose of "cash and cash equivalents" in today's financial reporting. Nevertheless, for the purposes of this project, we support retaining the current definitions of cash and cash equivalents in IAS 7.

3) Cash flows of an agent and non-cash transactions

In our opinion, the question of whether cash flows of an agent or non-cash transactions should be presented within the statement of cash flows touches on the very essence of what a statement of cash flows is meant to represent.

Our discussions primarily focused on the type of comparability that the statement of cash flows is intended to achieve. We considered whether presenting the economic substance of a transaction—regardless of its actual cash flow structure—would lead to more consistent reporting across entities, or whether the primary focus should instead be on the actual cash flows, as these ultimately reflect the contractual structure of the respective transactions, even if this means that it does not always align with the accounting treatment applied in the statement of financial position and the statement of profit or loss (e.g., lease accounting under IFRS 16).

We **strongly support** the latter view and are in favour of the **presentation of actual changes in cash and cash equivalents** in the statement of cash flows. In our opinion, presenting hypothetical cash flows would raise numerous issues and fundamentally alter the nature of the statement. We would also like to refer to our critical comments above regarding increased *cohesiveness with other primary financial statements*.

4) Classification of cash flows

Firstly, it is important to note that the discussion on the classification of cash flows is approached from two perspectives: comparability (paragraphs 3.32–3.38) and relevance (paragraphs 3.39–3.50). While comparability may warrant a certain degree of alignment with other components of the financial statements, such integration—particularly with the statement of financial position and the statement of profit or loss—appears less important in the context of relevance. In fact, the absence of relevant information in the statement of cash flows, as illustrated by the examples provided in the Discussion Paper, often results from the application of classification principles derived from these other statements (e.g., classifying only expenditures that are capitalised as cash flows from investing activities or the classification of lease accounting in the statement of cash flows).

This further highlights the distinct purpose of the statement of cash flows and the inherent difficulty of achieving full alignment with the other primary financial statements. In this context, we also refer to our critical comments above regarding greater *cohesiveness with other primary financial statements*.

Furthermore, we would like to stress that the primary focus of any potential revision of the statement of cash flows should be on closing existing information gaps. Consequently, information that is already presented—either in the statement of cash flows or in the other primary financial statements—but merely requires additional processing by users to meet their information needs, should not be prioritised over information that is entirely absent. We therefore **express some reservations** about making further adjustments to the classification of cash flows.

5) Disclosure requirements

The ASCG did not identify any need for additional disclosure requirements and therefore **does not support** additional disclosure requirements related to the statement of cash flows. With regard to reconciliations—for example, by providing a reconciliation to working capital or net debt—we refer to our response to Question 5.

6) Definitions of measures

The discussion within the FR TC revealed two contrasting perspectives on the potential definition of Free Cash Flow (FCF) measures. One user member supported the use of standardised FCF metrics, emphasizing their ability to enable quick and straightforward comparability across companies. In contrast, **most FR TC members favoured** an approach based on **reconciliation to the nearest relevant subtotal** in the statement of cash flows—aligning with the management approach adopted for MPMs under IFRS 18. This view reflects the argument in paragraph 3.57 of the DP, which states that “an alternative to providing a definition could be to require a reconciliation of some of the measures to figures included in the financial statements.” These members expressed significant scepticism toward standardised metrics, primarily due to their experience with the development of IFRS 18 (see IFRS 18.BC330–333) and the practical difficulties of clearly defining the individual input components.

With regard to the definition of working capital, net debt and maintenance vs. growth capital expenditure (CapEx), the FR TC questions the usefulness of uniformly defined measures. For example, implementing standardised definitions of “working capital” or “net debt”, or distinguishing between “maintenance” and “growth CapEx”, is challenging, as these concepts are shaped by industry-specific practices and subjective judgement, and may not reflect the diverse information needs of stakeholders. A uniform approach risks producing inconsistent or misleading comparisons between companies with differing operational setups and financial structures. Such standardisation could reduce transparency, hinder meaningful analysis, and impair users' ability to assess a company's financial position. The FR TC therefore **does not support** the standardisation of these measures.

7) Presentation of cash flows from operating activities

After discussing the methods for presenting cash flows from operating activities, we recommend maintaining the current option in IAS 7.18. In particular, for banks and insurance companies, the costs of applying the direct method would increase significantly, while the added value of this information remains questionable. Even for non-financial companies, each method offers its own advantages and disadvantages. As confirmed by the feedback to EFRAG [paragraph 3.79], the indirect method appears to be preferred by many users in Europe, while the direct method is more commonly preferred in the United States [paragraph 3.70]. Based on these results and the differing preferences among preparers, we see no advantage in mandating a specific method.

Furthermore, the FR TC clearly opposes the additional disclosures suggested in the EFRAG DP, particularly in relation to the use of the indirect method. The two methods—the direct and the indirect method—are considered equivalent, and any unequal treatment would be unjustifiable, effectively resulting in discrimination against the indirect method. Moreover, it was noted that allowing continued use of the indirect method while simultaneously requiring additional disclosures aligned with the direct method would not reduce the implementation burden for preparers.

With regard to providing a reconciliation to working capital or net debt, we refer to our response to Question 5.

8) Disaggregation of information

Within the FR TC, differing—at times opposing—arguments were expressed regarding the distinction between maintenance and growth CapEx. One member supported making this distinction, particularly noting that such information is not reliably available from external sources. As a result, disclosure could be beneficial, potentially limited to companies that already make this distinction internally. However, other FR TC members expressed scepticism about introducing a mandatory breakdown—an issue also raised in the Discussion Paper (para. 3.55(b))—arguing that the distinction between maintenance and growth CapEx is highly subjective and questioning the usefulness of the resulting information.

In this context, we also refer to our critical comments above regarding the *definitions of measures.*

The FR TC **does not support** the further disaggregation of items that adjust the period's profit or loss under the indirect method for presenting cash flows from operating activities, particularly in relation to 'non-cash add-back items' (paragraph 3.55a). On the one hand, this would result in greater effort when using the indirect method, thus placing it at a disadvantage. We also refer to our feedback above regarding the *presentation of cash flows from operating activities.* On the other hand, it was questioned how useful such a breakdown would be for analysing working capital. The business cycles and business models of the various segments of a group – particularly in the case of a diversified group – are too different for meaningful conclusions to be drawn from such a breakdown.

Regarding segment information, the FR TC expressed concerns and cautioned against the need to define segment KPIs, as this would contradict the management approach under IFRS 8. A parallel was drawn to the discussion of IFRS 18, where the IASB acknowledges that segment measures could, in certain cases, provide information about the overall performance of an entity, but they are not required. The principle remains that management-defined performance measures reflect management's view of an aspect of the entity's overall performance (IFRS 18.BC345-346).

The FR TC **supports** the breakdown of dividends to controlling and non-controlling interests (NCI). Firstly, we consider that the breakdown of dividends to controlling and non-controlling interests (NCI) provides greater transparency regarding the liquidity outflow to NCIs. Combined with the income from investments in consolidated entities reported in the parent company's separate financial statements, this provides a comprehensive picture of equity transfers within the group—that is, the distributions made by subsidiaries to their shareholders. This allows for more nuanced interpretations: for example, if investment income is presented by the parent but no distributions to NCIs are reported in the group financials, this indicates income from wholly owned subsidiaries.

In addition, the information on the distribution split complements the statement of changes in equity by adding the liquidity component. This removes the need for external—and often uncertain—estimates of liquidity outflows to NCIs based on the statement of changes in equity. At the same time, it can be assumed that providing this information does not result in any significant additional burden for the preparer, as the relevant data is already available.

Question 4: Non-cash transactions

Chapter 4 (3!) considers two types of non-cash transactions:

- transactions in which no cash or cash equivalents are involved, such as the acquisition of Property, Plant and Equipment (PPE) by means of own shares; and
- multiple component transactions that involve cash or cash equivalents but which result in cash flows to and from an entity being reduced compared to a situation where the various components have not been bundled.

Do you think that some non-cash transactions should be presented in the statement of cash flows? If so, which?

Instead of presenting non-cash transactions in the statement of cash flows, do you think additional disclosures should be provided about these transactions?

We refer to our comments on an agent's cash flows and non-cash transactions in our response to Question 3.

Question 5: Alternatives to the statement of cash flows for non-financial entities

Chapter 5 (4!) of the DP presents a statement of net debt (or a net debt reconciliation) as an alternative to the statement of cash flows. Would you support the statement of cash flows being replaced by a statement of net debt?

We **do not support** replacing the statement of cash flows with any of the alternatives presented in Chapter 4 of the DP, as we do not consider the statement of cash flows to be fundamentally flawed. The FR TC likewise **does not support** supplementing the cash flow statement with a reconciliation of net debt that goes beyond the current requirements of IAS 7.44A–E, or with a statement of changes in working capital.

The FR TC takes a critical view of the potential benefits of these instruments, given the additional preparation costs and the fact that much of the information is either already derivable from the financial statements or considered to have limited informational value. For example, in the case of a diversified group, the FR TC argues that the differing economic cycles and business models across segments limit the usefulness of a working capital breakdown. Furthermore, we believe that the current primary financial statements already permit individual analysis of net debt and working capital, irrespective of a company's internal definitions. This enables users to apply their own definitions and calculation methods in their analyses.

The ASCG **does not support** paragraphs 4.11 and 4.12 of the DP, which propose introducing a statement of changes in other liquid assets or assets used in liquidity management. As outlined above in our response to Question 3 – *Cash flows of an agent and non-cash transactions* – we see a risk that expanding the scope of the statement of cash flows beyond actual cash movements (i.e. changes in cash and cash equivalents) could dilute its focus and reduce its clarity.

Question 6: The statement of cash flows for financial institutions

In 2015, EFRAG issued its Discussion Paper 'The Statement of Cash Flows Issues for Financial Institutions' and consulted on whether the statement of cash flows should be replaced by other requirements or whether it should be improved. All respondents to EFRAG's DP expressed concerns about the relevance of the statement of cash flows for financial institutions, particularly for banks and insurance companies, due to the particular nature of their business activities. Furthermore, the following comments were provided.

- The statement of cash flows is not useful as a management tool for analysing banks' liquidity risks, insurers' solvency, capital adequacy or the impact on dividends.
- It is challenging to analyse changes in cash position from the statement of cash flows even though it is crucial for analysing financial institutions' financial position.
- The relevance of the statement of cash flows depends on the business model of a bank.
- Leasing companies and entities with an established asset and liabilities management process face similar issues as banks and insurers.

More details about the comments received on EFRAG's 2015 Discussion Paper can be found in the feedback statement.

Do you consider that anything has changed since 2015 which would justify for this issue being further examined?

Overall, discussions with banks and insurance companies—both in working group meetings and within the FR TC—have made it very clear that the statement of cash flows is not perceived as providing added value for these entities. Furthermore, there is considerable scepticism as to whether the objectives of the statement of cash flows, as outlined in the EFRAG DP with a primary focus on non-financial entities, are relevant to banks and insurance companies at all. The unanimous conclusion of these discussions is that none of the stated objectives are met from the perspective of banks and insurers.

The ASCG agrees with the arguments made in the DP (paragraph 5.5-5.16) that the statement of cash flows is considered less useful for banks due to the absence of a typical cash conversion cycle, as many bank transactions involve cash and cash equivalents. The distinction between operating, investing, and financing activities is not meaningful for banks, as most of these activities are part of their revenue-generating operations. Banks' cash flows are not primarily driven by performance, which makes the statement less relevant for assessing their current performance or liquidity. Additionally, regulatory requirements for assessing liquidity and solvency differ from those addressed by the statement of cash flows.

We agree with the arguments made in the DP (paragraph 5.17-5.24) that the statement of cash flows is considered less relevant for insurance companies due to several key factors. Firstly, insurance companies operate under a 'reverse' cash cycle, where they receive cash upfront from premiums before incurring expenditures, making cash flow statements less informative for assessing performance. Secondly, the long business cycle of insurance companies means that cash inflows and outflows often do not align within the same reporting period. Thirdly, some significant inflows and outflows, such as those related to large insurance claims or premium payments, may occur sporadically, distorting the cash flow picture. Additionally, the categorisation of cash flows into operating, investing, and financing activities is not meaningful for insurance companies due to the nature of their business. Lastly, while the statement can provide information on dividend payments and liquidity, it offers limited insights into the company's ability to predict and manage future cash flows, which is crucial for insurance businesses.

Furthermore, according to our discussions with banks and insurance companies—both with our working groups and within the FR TC—it was reported that they have not received any questions from financial analysts or other users regarding the statement of cash flows. This suggests that the cash flow statement is rarely used, and if it is used for certain purposes, it has not led to follow-up inquiries from users.

We are therefore highly critical of any proposed adjustments to the statement of cash flows for banks and insurance companies aimed at aligning it with the objectives outlined in the EFRAG DP. First, the DP itself acknowledges that the requirements of IAS 7, due to the lack of differentiation between financial and non-financial institutions, are technically applicable to both groups. However, feedback to EFRAG already questions whether the statement of cash flows meaningfully supports financial institutions in achieving these objectives. In our view, any attempt to simply transfer these objectives to financial institutions is bound to fail.

Secondly, we would respectfully suggest taking a closer look at whether—and if so, what—information users may actually be missing from the statement of cash flows of financial institutions. If specific indications can be identified, they could serve as a meaningful starting point for any potential revisions. However, we did not find such indications clearly outlined in the Discussion Paper.

In conclusion, we would like to express our concerns regarding the overall usefulness of the statement of cash flows for financial institutions. At the same time, we recognise the challenges associated with exempting financial institutions from the requirement to prepare a statement of cash flows and recognise that such an exemption is unlikely to receive broad support. Furthermore, the proposed alternatives were deemed neither advantageous nor cost-effective. On balance, we therefore **support** the retention of the current requirements, as the processes for preparing the statement of cash flows are already in place and well established. Any changes to this statement should only be considered if there is clear evidence that users are missing relevant information in the cash flow statements of financial institutions.

Question 7: Targeted improvements or a comprehensive review?
Chapter 7 (6!) shortly lists advantages and disadvantages of dealing with (some) of the issues with how the statement of cash flows is currently prepared under IAS 7 by targeted improvements, a comprehensive review or a phased approach, respectively. Which approach would you prefer and why? If you consider that the IASB should make targeted improvements, which issues do you think should/should not be addressed?

In light of the ASCG's discussions on the EFRAG Discussion Paper and the resulting limited need for changes to the cash flow statement for non-financial entities, the FR TC **supports limited, targeted improvements** where a clear and specific user need is identified and does not support a comprehensive review.

As outlined in our response to Question 6 of the DP, the FR TC questions the value of the cash flow statement for financial institutions. However, given the numerous challenges associated with exempting financial institutions from the requirement to prepare a statement of cash flows, we support retaining the current requirements under IAS 7 for financial institutions. Any changes to this statement should only be considered if there is clear evidence that users are missing relevant information in the cash flow statements of financial institutions.