EFRAG

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FAR comments: The Statement of Cash Flows - Objectives, Usages and Issues

FAR, the Institute for the Accountancy Profession in Sweden, is responding to EFRAG's invitation to comment on the Discussion Paper: *The Statement of Cash Flows – Objectives, Usages and Issues.*

Summary of FAR's comment letter response

In general, FAR expresses a positive stance towards the research conducted by the European Financial Reporting Advisory Group (EFRAG) and acknowledges EFRAG's intention to influence the work of the International Accounting Standards Board (IASB). FAR has opted not to respond to each individual question or to provide comments specifically regarding financial institutions. Instead, FAR offers overarching observations related to specific areas concerning non-financial institutions.

For further details of our responses, please see Appendix 1.

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Appendix 1

FAR's responses to specific areas for non-financial institutions in the Discussion Paper

Objectives of the statement of cash flows

FAR agrees with the objectives identified by the EFRAG Discussion Paper.

Usefulness of the statement of cash flows

The objectives suggested by EFRAG relate to the usefulness of the statement of cash flows. On a general note, research has looked at the relative usefulness of cash flows and earnings. While evidence in a direct comparison between cash flows and earnings is mixed, recent methodological improvements and a focus on comparable measures suggest earnings are more useful than cash flows. Still, the statement of cash flows adds information beyond the income statement (Ball & Nikolaev, 2022). FAR agrees with this view.

FAR makes a basic assumption that capital providers (identified as the primary users in the IFRS Conceptual Framework) are interested in a separation of cash from operations from cash for investments and financing.

IAS 7 makes a distinction between current operating cash flows and cash flows for operating investments in, e.g., property, plant and equipment. This distinction implies the view that cash provided by current operations is of interest, while investments in long-term assets are of interest as they are related to future growth opportunities. FAR agrees with this view, which is also supported by recent research (see, e.g., Ball & Nikolaev, 2022).

IAS 7 classifies investments in recognized long-term assets (e.g., property, plant and equipment) into investing cash flows, while investments in non-recognized assets (e.g., most internally developed intangible assets) are included in operating cash flows. This difference makes it difficult for capital providers to distinguish between cash flows for current operations and cash flows that relate to future growth in intangible-intensive companies. The difficulty is increasingly important as the proportion of investments in intangibles goes up. A solution would be to increase disclosures about disaggregated information, specifically about the cash used for investments in non-recognized intangible assets. The IASB's current project on intangible assets should provide relevant input in this respect.

There is also a question about the distinction between operating and financing cash flows. To separate operating cash flows, cash used for interest payments should be taken out and included in financing cash flows. While IAS 7 is currently not clear in this regard, the issue is likely to be resolved with the implementation of IFRS 18 *Presentation and Disclosure in Financial Statements*.

In the statement of cash flows, there are some items that need additional clarification in standards as they are currently difficult to understand for many users. Overall, FAR sees a risk of inconsistencies in investing and financing activities and how the cash position varies over time.

- Cash flow used for leasing in the lessee's financial statements. The disclosures regarding investments funded through lease contracts are not only difficult for users to understand, but the information disclosed varies between preparers. The disclosure requirements are mainly related to the financing activities and less on the investments. Disclosures required by other standards might not always provide sufficient and coherent information to understand and predict future cash flows.

- Supplier finance arrangements are difficult for readers to understand.

- Investments with deferred payment. FAR sees a risk that similar transactions are presented in different ways and that recurring investments in assets are replaced with cash flow from financing activities, e.g. through vendor notes or purchase agreements.

- Working capital and its impact on the net debt position. Information about seasonality in working capital and normalized levels of working capital would provide a user additional clarity on the net debt position and its cash flow impact.

Assessing accruals (Objective 1b)

In paragraph 2.32 in the Discussion Paper, EFRAG suggests that research shows that investors misinterpret information available in accruals. These findings are likely to be driven by econometric weaknesses in the studies referred to by EFRAG. For examples of unbiased valuation studies that utilize recent advances in statistics and machine learnings, see, e.g., Barth et al. (2023) and Starica & Marton (2025).

Alternatives to the statement of cash flows

In the Discussion Paper, EFRAG asks whether an alternative statement, e.g., a statement of net debt, would be better than the statement of cash flows. While not directly related, research shows that a focus on changes in assets and liabilities instead of cash flows is less useful to capital providers (Nallareddy et al., 2020). Any such fundamental changes to an alternative statement would need very careful assessment. FAR doubts it would improve the information content of the statement.

Interim financial reporting

There should be stricter requirements for a statement of cash flows in interim reports, in order to increase the usefulness to capital providers.

Targeted improvements or comprehensive review

Due to the significant amount of time it would take the IASB to conduct a comprehensive review of the statement of cash flows, FAR favors targeted improvements on the most important issues.

References

Ball, R., & Nikolaev, V. V. (2022). On earnings and cash flows as predictors of future cash flows. Journal of Accounting and Economics, 73(1), 101430.

Barth, M. E., Li, K., & McClure, C. G. (2023). Evolution in value relevance of accounting information. The Accounting Review, 98(1), 1-28.

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Starica, C., & Marton, J. P. (2025). Identifying the relationship between earnings and prices. The Accounting Review, 100(2), 383-420.

Yours sincerely,

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