IFRS

STAFF PAPER

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IASB® meeting

Project	**Third Agenda Consultation**
Paper topic	Potential projects—Feedback summary for proposed short-listed projects

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Introduction and purpose

1. At its November 2021 meeting, the IASB discussed feedback from respondents to the Request for Information *Third Agenda Consultation* (Request for Information)[1] and other sources about financial reporting issues that could be added to the IASB's work plan (potential projects).[2]

2. As explained in paragraph 9 of Agenda Paper 24A—*Potential projects—Approach to staff analysis*, the staff analysis of potential projects is presented in three papers:

   (a) Agenda Paper 24B—*Potential projects—Proposed short-listed projects*;

   (b) Agenda Paper 24C—*Potential projects—Other projects described in the Request for Information*; and

   (c) Agenda Paper 24D—*Potential projects—Other suggestions.*

3. This paper contains a summary of the feedback from respondents to the Request for Information about the proposed short-listed projects. As the IASB has already discussed that feedback, this paper is provided for information purposes only, to assist

[1] See Request for Information *Third Agenda Consultation*.

[2] See Agenda Paper 24D Feedback summary—Potential projects (part 1), Agenda Paper 24E Feedback summary—Potential projects (part 2), Agenda Paper 24F Feedback summary—Potential projects (part 3) and paragraphs 51–84 of Agenda Paper 24G Feedback summary—Users of financial statements.

the IASB when considering the staff analysis in Agenda Paper 24B of the proposed short-listed projects.

4. This summary was prepared by combining the feedback summary about each of those potential projects from two Agenda Papers discussed at the November 2021 meeting:

(a) Agenda Paper 24D—*Feedback summary—Potential projects* (part 1)[3]; and

(b) Agenda Paper 24G—*Feedback summary—Users of financial statements*.[4]

Climate-related risks

5. Most respondents (including many users) rated a potential project on climate-related risks as high priority, some rated it as medium priority and only a few rated it as low priority.

6. Respondents who rated this potential project as high priority said:

(a) climate-related risks are widespread, long-lasting, and have complex consequences. These risks are likely to impact a wide range of entities and sectors, including the impacts of climate-related goals adopted by governments.

(b) information on climate-related risks is not only a matter for sustainability reporting but can also have a material effect on recognition, measurement and disclosure in the financial statements.

(c) the publication of the educational material *Effects of climate-related risks on financial statements*[5] was a good first step in raising awareness of the issue among stakeholder groups. However, more detailed application guidance is needed. In practice, the number of companies considering climate-related risks and recognising their effects on their financial statements is very low.

[3] Agenda Paper 24D Feedback summary—Potential projects (part 1).

[4] Agenda Paper 24G Feedback summary—Users of financial statements.

[5] See https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf.

(d) the project should be broadened to include all long-term estimates with high levels of uncertainty.

(e) climate-related financial implications are a starting point, but the aim should be to address environmental, social and governance (ESG) matters comprehensively. A more ambitious project than the proposals in the Request for Information on ESG-related financial implications is needed.

(f) connectivity between financial reporting and sustainability reporting will need to be considered if entities are to provide a comprehensive picture. The IASB should coordinate its work with the International Sustainability Standards Board (ISSB) to avoid inconsistencies and duplication of effort. Synergies between financial and sustainability reporting could be explored and may pave the way towards a more holistic and integrated reporting system.

7. Respondents that rated this potential project as high priority also commented on the need to:

(a) develop accounting requirements for pollutant pricing mechanisms, as part of or in conjunction with the IASB's work on climate-related matters;

(b) consider changes to IAS 1 *Presentation of Financial Statements* and IAS 36 *Impairment of Assets*, as outlined in paragraph B11 of the Request for Information;

(c) clarify accounting requirements for green bonds applying IFRS 9 *Financial Instruments*;

(d) consider the implications of climate related risks for fair value measurements applying IFRS 13 *Fair Value Measurements*; and

(e) consider the implications of climate-related risks for other estimates, such as expected credit losses, depreciation and provisions.

8. Further to paragraph 6(c), users who rated this potential project as a high priority said that the education material on climate-related risks was helpful, but in their observations of reporting practices, they believe there is still inconsistent application of the requirements. They suggested the IASB consider how it can best ensure that the

requirements are implemented consistently by companies in their financial statements and said:

(a) addressing deficiencies in disclosure requirements should be a higher priority than making changes to recognition and measurement requirements for assets and liabilities.

(b) it is unclear to users whether identified deficiencies and inconsistencies are due to non-compliance with existing requirements or due to actual gaps in IFRS Accounting Standards.

(c) it would be useful if companies were required to disclose whether and how climate-related risks have been considered in testing assets for impairment, fair value measurements, expected credit losses and depreciation, or factored into sensitivity analysis. In this user's view, amendments to the disclosure requirements in IAS 1 and IAS 36 to explicitly require information about climate-related risks would be a smaller project than the project described in the Request for Information.

(d) consistency between the requirements in Accounting Standards and IFRS Sustainability Disclosure Standards developed by the ISSB will be crucial.

9. Respondents who rated this potential project as medium priority made some similar comments as respondents who rated it as high priority. Their reasons for rating this potential project as a medium project were as follows:

(a) as highlighted by the IASB in its educational guidance, Accounting Standards already require disclosure and consideration of climate-related risks. It would be more useful if the IASB developed illustrative examples to help entities apply those requirements.

(b) careful consideration is needed about which disclosures should be dealt with by the ISSB and which should be addressed by the IASB, with only deficiencies in disclosure requirements in Accounting Standards dealt with by the IASB, such as the extent to which climate-related risks result in impairments.

(c) while there is a need to align with the future Sustainability Disclosure Standards issued by the ISSB, to ensure no different or inconsistent requirements, this topic is not a high priority for the IASB before the ISSB develops its Sustainability Disclosure Standards.

(d) information about climate-related risks should be in management commentary.

10. Most of the respondents who rated this potential project as low priority did not provide comments. A few respondents said they have not yet observed significant concerns from stakeholders, climate-related risks are too unspecific or involve too many variables.

Cryptocurrencies and related transactions

11. Most respondents (including many users) rated a potential project on cryptocurrencies and related transactions as high priority, some rated it as medium priority and only a few rated it as low priority.

12. Many respondents who rated this potential project as high priority said that cryptocurrencies and related transactions is an emerging issue that is of increasing relevance. Many also said that the accounting applying current Accounting Standards does not seem appropriate and does not provide users with useful information, because of the nature of these assets and the purpose for which they are being held.

13. Further to paragraph 11, some users who rated this potential project as high priority provided detailed comments and said:

(a) current requirements to classify cryptocurrencies as intangible assets are not fit for purpose—users need information about the fair value of these assets. One possible solution would be to permit cryptocurrencies to be measured at fair value through profit or loss. However, cryptocurrencies should not be classified as cash and cash equivalents unless they are issued by central banks. Other users based in Asia said that cryptocurrencies are different from financial assets because they have much higher volatility and there is a ban on trading cryptocurrencies in some jurisdictions.

(b) companies' holdings in cryptocurrencies may be growing. Given the high risks associated with these assets, the IASB could consider a threshold for requiring disclosures about cryptocurrencies—for example, more than insignificant holdings.

(c) cryptocurrency mining can be energy-intensive, so better information is needed to help users assess the environmental impacts of cryptocurrencies and activities relating to this class of assets.

(d) cybersecurity attacks on companies have soared over the past few years and companies subject to these attacks are often required to make payments in cryptocurrencies, which enable hackers to easily hide the illegal source of funds. Thus, more disclosure requirements on cryptocurrency transactions are needed to help users better assess and understand the risks associated with these assets.

(e) these are new and complex assets—they may be a combination of currency, value storage, programmable money, smart contracts platforms and involve advanced technology.

14. Many respondents who rated rating this project as high priority also commented on the project scope. Some of those respondents said that the treatment of cryptocurrencies should be addressed in a comprehensive project on accounting for different types of crypto-assets and liabilities. Others made a range of suggestions:

(a) as a preliminary step, the IASB should issue application guidance or undertake smaller, targeted projects to address time-sensitive issues (including enhanced disclosures), with other issues dealt with in a longer-term project.

(b) the IASB should consider targeted amendments to IAS 38 *Intangible Assets* or to the scope of IFRS 9, as described in paragraphs B15(b)–(c) of the Request for Information.

(c) cryptocurrencies have unique characteristics and should be addressed in a new Accounting Standard independent of ordinary financial assets and intangible assets.

(d) the IASB should either undertake a comprehensive research project or focus on some specific transactions, such as accounting for initial coin offerings.

(e) amending the scope of IFRS 9 to include cryptocurrencies may only be a short-term fix as IFRS 9 was not written to address crypto-related issues. Instead, a standard on a range of non-financial tangible and intangible assets held for investment purposes is needed.

(f) the treatment of cryptocurrencies and related transactions should be part of a project to undertake a comprehensive review of IAS 38. This is likely to be more effective than an asset-by-asset approach for emerging new assets that did not exist when IAS 38 was developed.

(g) commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms should be considered together instead of as separate projects. Such a project could consider if these assets are within the scope of existing Accounting Standards and, if not, developing a new Accounting Standard.

(h) since the crypto ecosystem is still evolving, the IASB should take a phased approach, such as (i) developing an interim Accounting Standard to clarify the requirements of Accounting Standards to address diversity in practice; (ii) developing enhanced disclosure requirements; and (iii) develop a comprehensive Accounting Standard on crypto-asset activities.

(i) as there is a wide range of issues to be considered, the IASB should first undertake research and outreach before determining the project scope.

15. A few respondents who rated this potential project as high priority also said that the IASB could leverage work done by EFRAG on this topic. Also, some respondents who rated this project as high priority commented on specific issues that a project on cryptocurrencies and related transactions should address, in addition to those discussed in the Request for Information, such as issues relating to IAS 7 *Statement of Cash Flows* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

16. Some respondents who rated this potential project as medium priority did not provide comments. Those who did made comments similar to those made by respondents who rated this potential project as high priority. Reasons for rating this potential project as

medium priority were that it was not an urgent matter, crypto-related transactions were not yet widespread, and that the IASB should consider this potential project only if time allows.

17. Many respondents who rated this potential project as low priority did not provide comments. Some respondents who rated this potential project as low priority commented that the matter does not need immediate attention, is currently of limited relevance, the IASB should wait until the situation stabilises or that there is no need for a project on the topic.

Going concern

18. Many respondents rated a potential project on going concern as high priority, some rated it as medium priority and some rated it as low priority.

19. Many respondents who rated this potential project as high priority commented that the pandemic is continuing to have a significant impact on the ability of entities to continue as a going concern. The pandemic, together with corporate failures, has highlighted the importance of an entity's going-concern assessment, which is a fundamental principle that underpins the preparation of financial statements, and the importance of providing users with sufficient information about that assessment. More specific comments were:

    (a) IAS 1 has very limited guidance on assessing and reporting the risks to the company's ability to continue as a going concern.

    (b) management's disclosures about going concern are inadequate, inconsistent and boilerplate, including disclosures about:

        (i) significant judgements and estimates made by management in its going concern assessment, particularly relating to 'close calls';

        (ii) risks and uncertainties that may impact on an entity's ability to continue as a going concern; and

        (iii) management's plans to mitigate those risks and uncertainties.

(c) when assessing whether the going concern assumption is appropriate, the look forward period in paragraph 26 of IAS 1 should be extended to twelve months from the date of approval of the financial statements.

(d) the requirements in auditing standards are much more extensive, creating tension or an inconsistency between the requirements in Accounting Standards and those in auditing standards issued by the International Auditing and Assurance Standards Board (IAASB). Some respondents also said the IASB should collaborate with the IAASB on this topic.

20. Some users who rated a potential project on going concern as high priority commented on the need for enhanced specific disclosure requirements about the going concern assumption. In these users' view:

(a) better, audited, information about the going concern assumption, including the entity's ability to refinance its debt over the next 12 months, would be helpful.

(b) insolvency risks are often ignored.

21. Further to paragraph 19(d), the IAASB explained its recent and on-going work on its auditing standard on going concern, ISA 570 (Revised) *Going Concern*. That work includes a plan to commence a project in 2022 to revise and enhance ISA 570. The IAASB will coordinate and share information with the IASB as that project progresses. They also strongly encourage the IASB to undertake a project on going concern, as described in paragraph B38 of the Request for Information.

22. In making the comments summarised in paragraph 19, some respondents:

(a) acknowledged the education material published by the IFRS Foundation and the agenda decisions of the IFRS Interpretations Committee on this topic, but said that more guidance in Accounting Standards is needed; and

(b) noted that some national standard-setters have issued guidance on this topic.

23. Some respondents who rated a potential project on going concern as high priority also said that the project should include developing requirements for entities that are no longer a going concern, as the lack of guidance in this area leads to diversity in practice. A regulator said US GAAP contains useful guidance on this topic. However, a few respondents expressed different views on whether the IASB should develop

requirements on this topic. An accounting firm said such requirements were unnecessary and another accounting firm said developing such requirements was not a priority. A standard-setter suggested a research project to identify the extent of diversity in practice before considering any standard-setting solutions.

24. Some respondents who rated this potential project as medium priority did not provide comments. Some respondents (including some users) who rated this project as medium priority made similar comments as respondents who rated this project as high priority, particularly around the need for improved disclosure requirements. However, a user and a regulator said such a project was not a priority because of more pressing issues. A standard-setter said that such a project would enhance disclosure requirements in an area where additional guidance has already been provided via agenda decisions and educational material.

25. A few respondents who rated a potential project on going concern as medium priority also commented on the need to develop requirements for entities that are no longer a going concern. However, a standard-setter said that setting an Accounting Standard on this topic could be difficult. A user commented that, in practice, most companies that fail are reorganised rather than being liquidated and that liquidation accounting for companies that are reorganised is not helpful for investors.

26. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

(a) although there is scope for improvement in going concern disclosures, this is an application issue rather than a deficiency in Accounting Standards;

(b) the educational material published by the IFRS Foundation is very useful and it is not necessary to amend Accounting Standards;

(c) while enhanced guidance would be helpful, it is a lower priority than other potential projects; and

(d) developing requirements for the entities that are no longer a going concern would be difficult and should not be explored given resource constraints.

Intangible assets[6]

27. Most respondents (including many users) rated a potential project on intangible assets as high priority, some rated it as medium priority and only a few rated it as low priority.

28. Users of financial statements provided mixed feedback about the scope of this potential project. Some users expressed support for more recognition of internally generated intangible assets. However, more users expressed support for better disclosures about unrecognised intangible assets. Some of these users said that measuring the value of these assets is their task.

29. Overall, most respondents who rated this potential project as high priority said that the IASB should undertake a comprehensive review of IAS 38. They commented on the need to:

    (a) modernise IAS 38, which is an old Accounting Standard, to better reflect the ever-increasing importance of intangible assets in today's business models, particularly for unrecognised internally generated assets;

    (b) address new types of intangible assets, which were not envisaged when the Accounting Standard was developed (such as cryptocurrencies and emission rights) and for which the accounting required by IAS 38 does not provide useful information to users of financial statements;

    (c) develop separate requirements for intangible assets held for trading; and

    (d) improve comparability between companies that grow organically and those that grow through acquisitions.

30. Some respondents who rated this potential project as high priority said:

    (a) the IASB should focus on improving the disclosure of information about intangible assets, either as a first step in a larger project to comprehensively review IAS 38 or as an alternative to more recognition of internally generated

[6] This section summarises feedback from respondents to the Request for Information. Also see paragraph 4 of Agenda Paper 24F Feedback summary—Potential projects (part 3) from the November 2021 meeting for a summary of feedback from respondents on two tentative agenda decisions of the IFRS Interpretations Committee on two specific matters relating to IAS 38.

intangible assets. As noted in paragraph 28, some users said the IASB could develop better disclosure requirements about recognised and unrecognised intangible assets. Some of those users said qualitative information may not be enough and the IASB should consider developing disclosure requirements that would provide qualitative and quantitative information.

(b) the IASB should liaise with the ISSB when undertaking this project because of the link with sustainability reporting.

(c) a project on intangible assets should be combined or undertaken in conjunction with other related projects. More specifically, some respondents referred to the potential projects on pollutant pricing mechanisms, cryptocurrencies, and variable and contingent consideration.

(d) the issues discussed in the April 2021 IFRS Interpretations Committee agenda decision on configuration or customisation costs in a cloud computing arrangement should be addressed, either in a comprehensive project to review IAS 38 or as part of a more targeted project on new types of intangible assets. Some respondents also commented on other specific issues that they said should be addressed in a project on intangible assets, such as the June 2020 IFRS Interpretations Committee agenda decision on player transfer payments.

31. A few respondents who rated this potential project as high priority disagreed with recognising more internally generated intangible assets. These respondents said that a project on intangible assets should focus on improving disclosures and the accounting requirements for recognised intangible assets, such as cryptocurrencies. Some users who disagreed with recognising more internally generated intangible assets said that users do not need information about the value of individual intangible assets, because in most cases these assets cannot be sold separately.

32. Also, some users said better disaggregation of expenses in the statement of profit or loss would best address concerns about accounting for unrecognised intangible assets. They said in the past selling, general and administrative (SG&A) expenses were mainly fixed costs, unrelated to growth. Currently, many companies report significant amounts of SG&A expenses which are variable and closely relating to growth. Users want to know how much is being spent on the growth-related parts of SG&A such as

marketing and promotional spend, information technology and training. If these were required line items (if material), then users would have a much better picture of the cost structure of the business and would be able to capitalise some, or all, of these expenses to come up with their own definition of invested capital.

33. A few users said that, rather than focusing on a review of IAS 38, the IASB should review the requirements in IFRS 3 *Business Combinations*. They said the requirement to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair value is costly for preparers to apply and distorts trends. They said these accounting requirements do not serve users and applying predecessor accounting would provide better information. Some of these users suggested the IASB require companies to disclose internally generated and acquired intangibles separately, noting that many companies already do so. One user from Asia suggested the IASB undertake a comprehensive review of IAS 38 and IFRS 3 as part of its Goodwill and Impairment project and propose consistent amendments to both Accounting Standards.

34. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated it as medium priority made comments similar to those in paragraph 29 on the need to comprehensively review IAS 38. However, an accountancy body said it should be a longer-term project because of the extensive resources needed for such a project. Some respondents who rated this potential project as medium priority said the related projects on pollutant pricing mechanisms and cryptocurrencies were a higher priority.

35. Many respondents who rated this potential project as low priority did not provide comments. Those who did comment said:

    (a) certain assets, like cryptocurrencies and pollutant pricing mechanisms, may be better addressed in a different Accounting Standard;

    (b) the issues are not easily solvable;

    (c) the recognition criteria in IAS 38 should not be loosened; and

    (d) improved disclosures should be addressed as part of management commentary.

Operating segments

36. Some respondents (mainly users) rated a potential project on operating segments as high priority, some rated it as medium priority but many rated it as low priority.

37. Many users said a project on operating segments is a high priority. Many of these users said more granular and comparable information is needed and expressed support for potential solutions described in paragraphs B60–B62 of the Request for Information. Some of these users provided additional comments:

    (a) a few user representative groups said the convergence with US GAAP resulted in a major loss of usefulness of segment reporting and the post-implementation review of the Accounting Standard was a missed opportunity to make improvements.

    (b) some user representative groups said the perspective of a chief operating decision maker does not provide useful information, because segment reporting should focus on users' needs; previous approaches based on risks and returns provided more granularity and comparability between the periods.

    (c) a few user representative groups said one possible solution to overcome the shortcomings of the Accounting Standard would be to permit segment reporting from several perspectives—for example, geographic area, product, technology, customer type, domestic operations, foreign operations.

    (d) a user and a user representative group said in the Primary Financial Statements project, the IASB proposes to require additional subtotals in the statement of profit or loss and these subtotals should also be presented by segment.

    (e) a user said it would be useful to disclose key performance indicators that management and the board of directors use for decision making.

38. In contrast, a preparer expressed concerns about the suggestion in paragraph B60(c) of the Request for Information to require additional disclosures regardless of whether the information is regularly provided to the chief operating decision maker. They said any such requirements would be inconsistent with the management approach and increase costs for preparers because the data may not be available.

39. Many of the respondents who rated this potential project as medium priority did not provide comments. Some respondents provided similar comments as those who rated this potential project as high priority, such as comments that the management approach does not deliver sufficient relevant or comparable information, information provided under current disclosure requirements is not sufficiently granular and requiring consequential amendments to IFRS 8 *Operating Segments* to reflect the Primary Financial Statements project. Some respondents said these issues were important but not a top priority. An accountancy body suggested the IASB build on its previous work and the work of other national standard-setters for this potential project. A few respondents provided suggestions for improvements to IFRS 8.

40. Many of the respondents who rated this potential project as low priority did not provide comments. Some respondents said that IFRS 8 works reasonably well, there is limited evidence of urgent practice issues and the post-implementation review of IFRS 8 indicated that the Accounting Standard is working as intended. A few respondents acknowledged concerns with IFRS 8, such as the information provided is not sufficiently granular and comparable across companies, but did not consider these issues to be a high priority. Other comments were that:

    (a) the benefits of this project might not justify the resource needed;

    (b) convergence of IFRS 8 and US GAAP makes it difficult to make changes to IFRS 8;

    (c) the IASB should consider the impact of technological developments on IFRS 8, such as how technology is affecting the way segment reporting is presented; and

    (d) requiring the disclosure of a minimum set of key performance indicators (as discussed in paragraph B60(d) of the Request for Information) may run contrary to the management approach used in IFRS 8 because key performance indicators might be company-specific.

Pollutant pricing mechanisms

41. Many respondents (including some users) rated a potential project on pollutant pricing mechanisms as high priority, some rated it as medium priority and some rated it as low priority.

42. Respondents that rated this potential project as high priority said:

    (a) there are new pollutant pricing mechanisms and an increasing number of companies using them to meet their climate commitments. For example, a user said that a significant number of listed entities engage in transactions involving pollutant pricing mechanisms, and there is every reason to expect that such mechanisms will apply to more jurisdictions and more industries.

    (b) the impact on companies can be material and a lack of accounting requirements in Accounting Standards has led to diversity in practice and reduced comparability across companies. For example, a user representative body said that there has been a great diversity in the way companies report and value tradeable emission allowances.

    (c) to provide a complete picture of a company's activities, financial reporting and sustainability reporting will need to be connected. The IASB should coordinate its work with the ISSB to avoid inconsistencies and duplication of effort.

    (d) potential projects on pollutant pricing mechanisms, cryptocurrencies and related transactions, and intangible assets share similar characteristics and should be addressed in one overall project.

43. Other more specific comments from respondents that rated this potential project as high priority were that the IASB should:

    (a) develop accounting requirements for pollutant pricing mechanisms as part of or in conjunction with work on climate-related risks;

    (b) develop accounting requirements for common pollutant pricing mechanisms such as cap-and-trade schemes and baseline and credit mechanisms; and

    (c) develop a consistent and comparable approach that can be applied across various types of pollutant pricing mechanisms.

44. Many respondents who rated this potential project as medium priority did not provide comments. Some respondents provided similar comments as those who rated this potential project as high priority.

45. Some respondents who rated this potential project as low priority did not provide comments. Of those who did, most said pollutant pricing mechanisms are not prevalent in their jurisdictions. An academic said this potential project involves too many variables.

Statement of cash flows and related matters

46. Many respondents rated a potential project on the statement of cash flows and related matters as high priority, some rated it as medium priority and some rated it as low priority. Most users rated this potential project as a high priority.

47. Respondents that rated this potential project as high priority expressed a range of views on the project scope and the specific issues that this potential project should address. Some respondents said the IASB should undertake a comprehensive review of IAS 7 *Statement of Cash Flows*. Some other respondents were in favour of a more targeted approach, although they expressed different views on which issues should be addressed in a more targeted project. Paragraphs 48–56 summarise comments made by respondents who rated this potential project as high priority.

48. Some respondents (including some users) commented that they have difficulty reconciling the statement of cash flows to the other primary financial statements. Most of those respondents highlighted the need for more information about non-cash movements such as supplier finance arrangements and factoring of trade receivables.

49. Some respondents suggested reviewing the definition of cash and cash equivalents, particularly whether cryptocurrencies can be considered as cash and whether there is a better basis other than the maturity period of an investment to determine whether it is a cash equivalent. They also suggested other specific issues for which additional guidance should be provided.

50. A few respondents (users and a regulator) said that the IASB should require companies to present a statement of changes in net debt (as discussed in the paragraph

B76 of the Request for Information). They commented on the importance of this information to users of the financial statements. For example, a user said that information from a statement of changes in net debt is critical in determining a company's enterprise value. A regulator said such a statement should be required because there is a poor level of compliance with the requirements in paragraphs 44A–44E of IAS 7.

51. Some respondents said the classification of cash flows should be reviewed. In particular, some said that the current classification in the statement of cash flows is not aligned with the classification in the statement of profit or loss proposed in the Primary Financial Statements project.

52. A few respondents (including some users) commented on a lack of information in the statement of cash flows that is needed to compute metrics, such as cash from operations and free cash flows, and to determine the amounts spent on capital maintenance and capital growth. A standard-setter suggested providing guidance to help companies classify expenditure as maintenance or growth expenditure. A user suggested requiring disclosures about the fair value of all stock-based compensation and stock-based merger and acquisition transactions, to get a clearer picture of the company's expenditure. A government agency suggested reporting cash flows that represent investment in intangible assets and cash flows that arise from intangible assets.

53. A few respondents commented on the statement of cash flows for financial institutions. Some of those respondents said the requirement for financial institutions to present the statement of cash flows should be removed and a standard-setter said the IASB should consider doing so. For example, a preparer said:

(a) the statement of cash flows does not reflect how financial institutions manage cash and liquidity in practice; and

(b) the needs of investors and other stakeholders are already met by IFRS 7 *Financial Instruments: Disclosures* and the Basel Regulatory Framework.

54. However, a standard-setter and a user said that the requirement for financial institutions to present a statement of cash flows should be retained because it provides essential information (such as cash flows relating to dividend payments, capital issued

and repaid, and acquisitions and disposals) and the IASB should consider developing a statement of cash flows for financial institutions. Another standard-setter said the requirements in IAS 7 are not specific to the banking industry and it is difficult to calculate certain items such as interest income.

55. A few respondents commented on reporting cash flows using the direct method. Most of those respondents (including some users) expressed views in favour of requiring its use. They said the direct method would reduce the difficulty of reconciling the statement of cash flows to the other primary financial statements. Also, the direct method could provide more information about operating cash flows, such as cash flows arising from supplier finance arrangements and cash collected from customers. However, one user representative body noted that its members' views were mixed and encouraged the IASB to consider the advantages and disadvantages of reporting cash flows using the direct method. A regulator said requiring companies to produce a statement of cash flows using both the direct and indirect methods would be helpful to users and may help to eliminate basic cash flow errors that regulators around the world continue to note in financial statements.

56. Other suggestions were that the IASB should:

(a) work with other national standard-setters that have undertaken work on the statement of cash flows;

(b) undertake a targeted project to improve the modelling of the statement of cash flows in the IFRS Accounting Taxonomy—issuers create numerous entity-specific extensions that reduces comparability across companies; and

(c) develop additional disclosure requirements that provide information on how companies manage cash inflows and outflows in order to meet payment obligations, plan for future payments, mitigate financial risks and maintain business stability.

57. Many of the respondents who rated this potential project as medium priority did not provide comments. Some respondents who rated this potential project as medium priority made comments similar to those of respondents who rated this project as high priority. Also, a regulator said that the statement of cash flows is designed for

companies in general which could be challenging for companies in certain industries such as insurance.

58. Many of the respondents who rated this potential project as low priority did not provide comments. A few respondents said IAS 7 works reasonably well or there is limited evidence of urgent practice issues. A few respondents made other comments:

    (a) the requirement for insurers to produce a statement of cash flows should be removed; and

    (b) additional guidance on accounting for subsidiaries in common control transactions is needed.