

中 华 人 民 共 和 国 财 政 部

Ministry of Finance of the People's Republic of China

 会计准则委员会
CHINA ACCOUNTING STANDARDS COMMITTEE

Statement of Cash Flows

China Accounting Standards Committee

November 2023 Brisbane, Australia

Agenda

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Introduction



Research background:

Based on feedback to the Third Agenda Consultation and considering its own capacity and project progress, the IASB decided to add the Statement of Cash Flows (SCF) and Related Matters (“the SCF project”) into its research project pipeline for the next five years (2022-2026) work plan.

For the SCF project, the CASC has conducted preliminary research through communication with Chinese stakeholders, in order to support and assist the IASB's future work on the project.

Research methods:

Questionnaire and outreach

Research contents:

The usefulness of the information provided in SCF; Practical issues in the application of IAS 7; Proposals for the IASB's future work on SCF.



Stakeholder type and numbers of questionnaire and outreach

Stakeholder type	No.
Investors	5
Regulators	1
Auditors	18
Preparers	17
Academics	9
Total	50

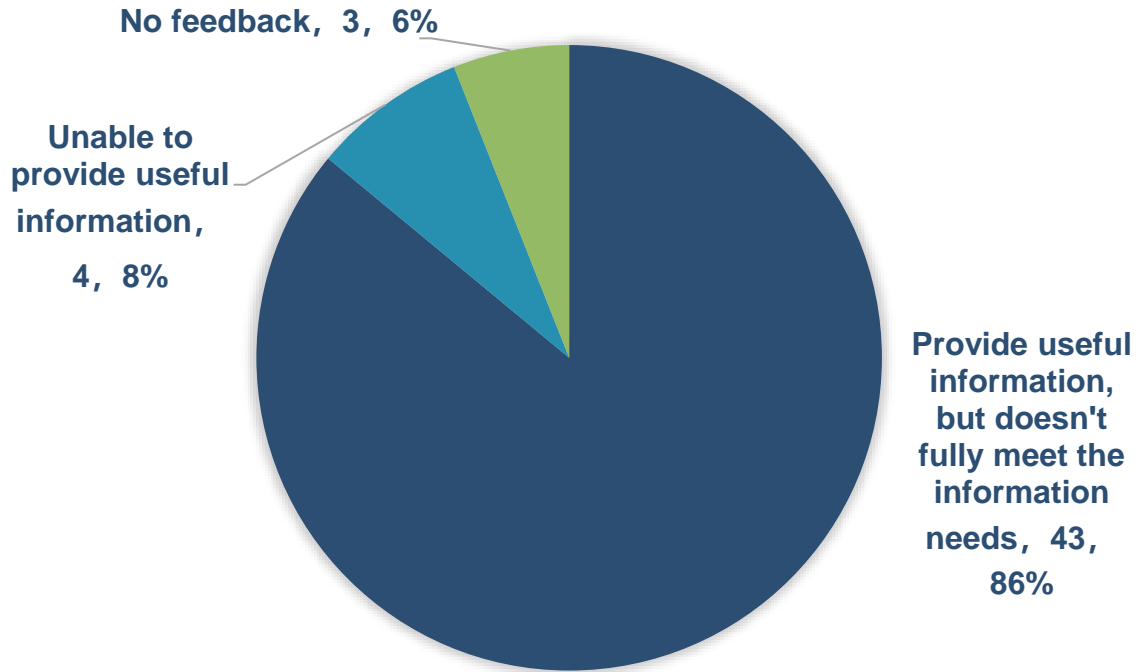
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Overview of the research findings

『02』 Overview of the research findings

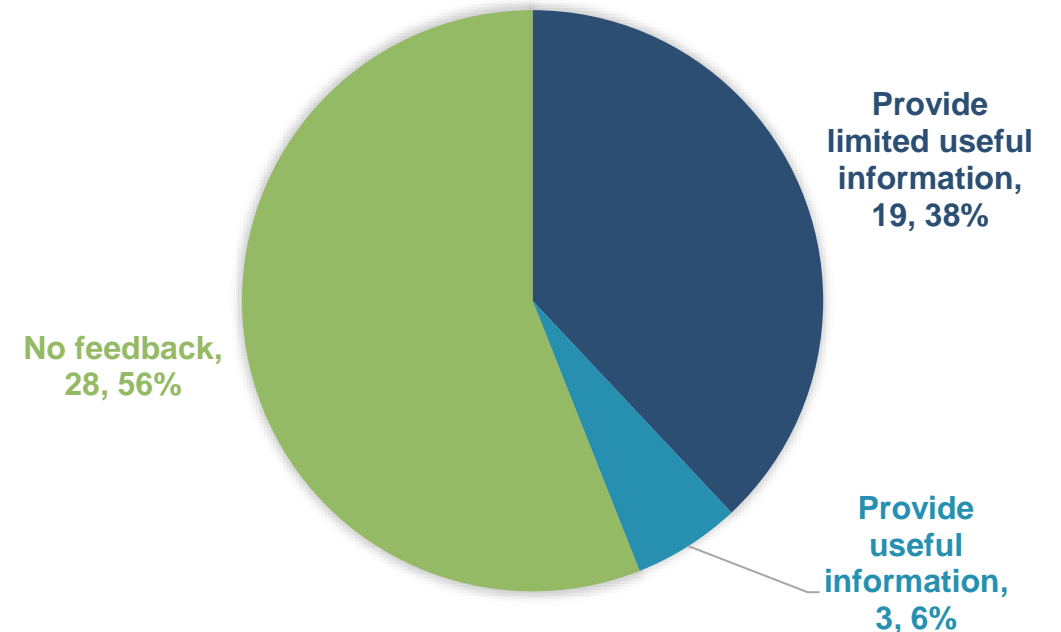
As for the usefulness of SCF, Chinese stakeholders' general opinion: SCF of non-financial entities provides useful information, but doesn't fully meet the information needs. SCF of financial entities such as banks and insurance companies just provides limited useful information.

SCF OF NON-FINANCIAL ENTITIES



91% of the 47 stakeholders commenting on this question believe that SCF of non-financial entities could provide useful information, but doesn't fully meet the information needs.

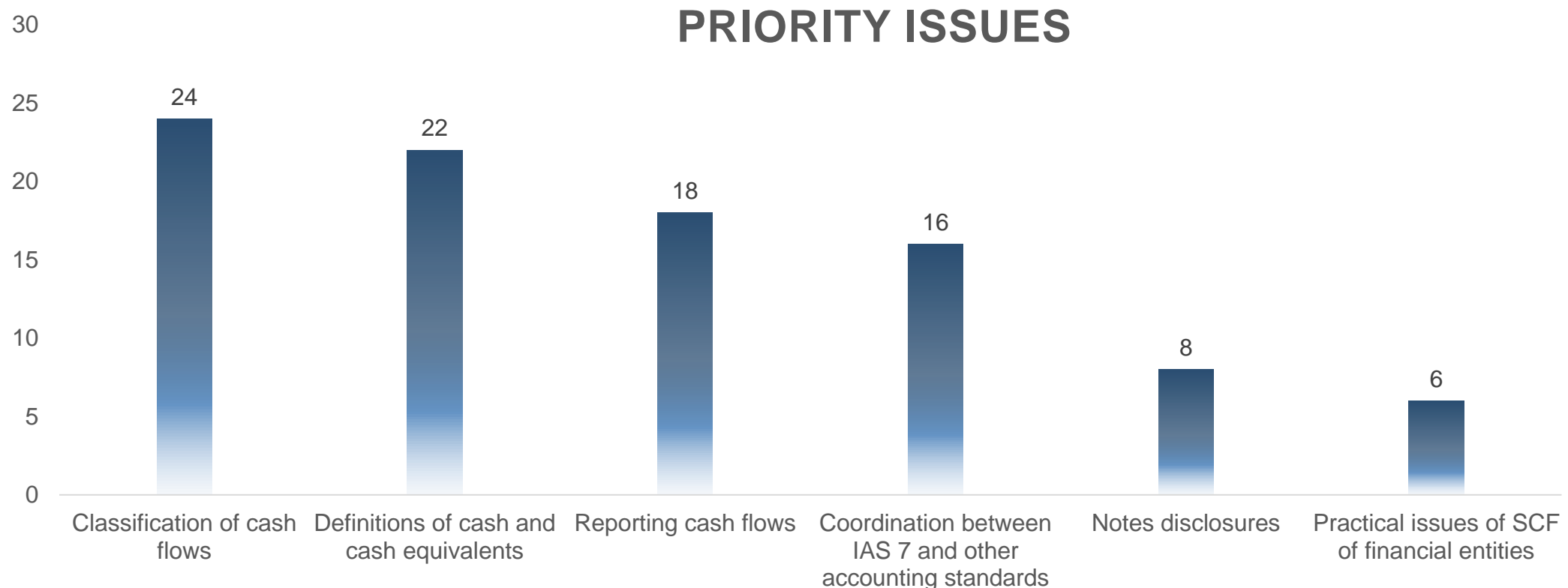
SCF OF FINANCIAL ENTITIES



86% of the 22 stakeholders commenting on this question believe that SCF of financial entities just provides limited useful information.

『02』 Overview of the research findings (Cont.)

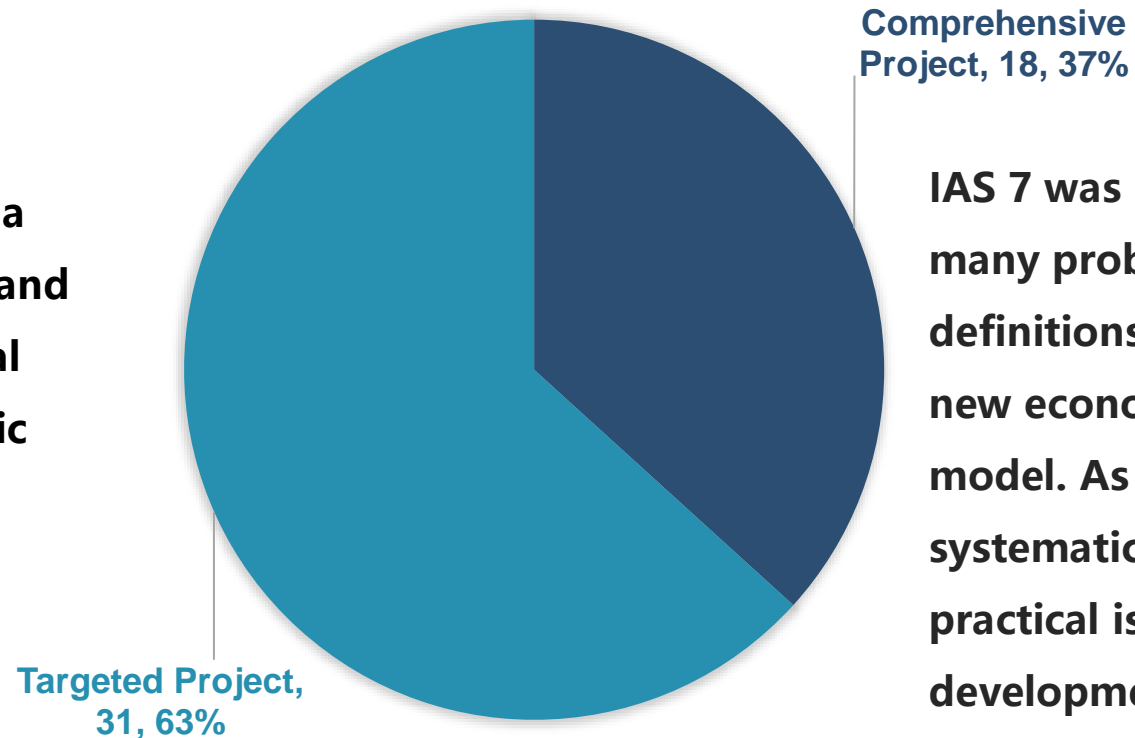
Most of the stakeholders agree that while SCF provides useful information to some extent, there are still some practical issues that need to be addressed to improve the comparability and usefulness of SCF. The stakeholders believe that the following practical issues should be addressed as a priority, ranked in order from the highest to the lowest in terms of the number of issues mentioned in their feedback:



『02』 Overview of the research findings (Cont.)

In response to the above issues, most of the stakeholders think that the improvement of IAS 7 should be proceeded as a targeted project.

PROJECT TYPE



It will take a long time for a comprehensive project, but as a targeted project, it can timely and effectively address the practical issues, which is of more realistic significance.

IAS 7 was issued over 30 years. There are many problems, and the relevant definitions are no longer suitable for the new economy, new business, and new model. As a comprehensive project, it can systematically and thoroughly address practical issues and adapt to economic development.

/03

Practical issues in the
application of IAS 7

1 Classification of cash flows

With the emergence of new and complex business models, and the revision of other relevant accounting standards, it is difficult for entities to provide useful information on the classification results of some transactions under IAS 7. It's proposed that the following issues should be taken into account in future improvements to IAS 7:

- Certain businesses such as supplier finance arrangements, accounts receivable factoring have both financing and operating nature at the time of transaction. Whether such businesses are classified as financing activities or operating activities, may not fully reflect the substance of the business.
- As a result of the implementation of IFRS 16, for lease contracts with prepaid lease payments, the first lease payments are classified as investing activities because of the recognition of the right-of-use asset, and the subsequent lease payments (the principal portion of the lease liability) are classified as financing activities. The fact that a transaction classification depending on the different payment timing may reduce the understandability and usefulness of the financial statements.

2 Definitions of cash and cash equivalents

The definitions of cash and cash equivalents in IAS 7 do not adapt to the complex economic environment, and limited guidance in this area result in diversity in practices. It is proposed that the definitions should be further clarified, or that additional guidance should be provided:

- **Cash is defined as “cash on hand and demand deposits” in IAS 7.**

(a) There's no definition of *demand deposits* in IAS 7 and other accounting standards. Although there is a general consensus in practice on *demand deposits*, with the increasing number of non-bank financial entities, there are practical diversities as to whether deposits in such entities with readily available withdrawal meet the definition of *cash*.

(b) Time deposits, which can be withdrawn in advance but will lose some interests, may be similar to demand deposits in nature, and there are practical diversities as to whether they meet the definition of *cash*.

The amount of the above two types of deposits is large and growing, which has a great impact on the statement of cash flows.

- **Cash equivalents are defined as “short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value” in IAS 7.**

Limited guidance for those criteria results in a lot of judgments and great practical diversities, and reduces the comparability of financial statements. Clarifications and guidance are requested in terms of whether the *short-term* is within 3 months, what are the criterion for determining *an insignificant risk of changes in value*, whether the investments of money market funds meet the definition of *cash equivalents, etc.*

3 Reporting cash flows (1/2)

As for the direct method or the indirect method for reporting cash flows from operating activities , allowing the selection of the reporting method does not meet the user's information needs. It is proposed that it should be a mandatory requirement for entities to use the direct method when reporting cash flows from operating activities:

- Investors pay more attention to evaluating the future cash flows of entities when evaluating the entities' enterprise value. SCF which uses the indirect method to report cash flows from operating activities does not meet the information needs of investors.

3 Reporting cash flows (2/2)

As for whether or not to report on a net basis, the practice is highly diversified, which reduces the comparability of financial statements. Further guidance or examples are requested:

- **Whether to report on a net basis:** IAS 7.20 states that cash flows arising from particular activities may be reported on a net basis. As a result, entities adopt different reporting methods for the same type of business, especially when the same funds are used for frequent subscription and redemption of financial products with a short period. The result of the reporting cash flows based on a net basis or not will be significantly different, thus reducing the comparability and comprehensibility of financial statements.
- **Examples referred to IAS 7.22(a) :** IAS 7.23 provides three examples of cash receipts and payments on behalf of customer. It is proposed that the IASB clarifies whether only three situations in practice meet the requirements of net basis reporting.
- **Principles in IAS 7.22(b) :** There are limited guidance for three conditions of *turnover is quick, the amounts are large and maturities are short*, and there are large diversities in practice judgments. It is proposed to provide further guidance of examples.

4 Coordination between IAS 7 and other accounting standards(1/2)

- **Coordination between IAS 7 and IFRS 10:**

IAS 7.11 states that an entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. For diverse group entities, the classification of cash flows in individual financial statements of financial and non-financial subsidiaries are quite different. Neither IAS 7 nor IFRS 10 provide guidance on how to make the classification at the consolidated financial statements level, resulting in the diversity in practice. It is proposed to clarify or provide additional guidance and examples.

- **Coordination between IAS 7 and forthcoming IFRS 18:**

The new IFRS 18 to be issued soon proposes that the statement of profit or loss be classified into operating, investing and financing categories, although the category name is the same as the statement of cash flow, but the classification is not exactly the same, the specific classification of the statement of cash flows may be affected by the category of the statement of profit or loss and increase the difficulty of classification. It is proposed that the IASB theoretically clarify whether and how classifications between the two accounting standards should be coordinated.

4 The coordination between IAS 7 and other accounting standards(2/2)

- **Coordination of terms:**

There are differences in similar wording in different accounting standards, and these terms are not further explained, but their meanings are similar, which can easily lead to misunderstanding and confusion among stakeholders.

Standards	Wording
IAS 7	principal revenue-producing activities
IFRS 15	ordinary activity
IFRS 18	main business activities

5 Notes disclosures

There is a large information demand for the disclosure of non-cash transactions:

- **Non-cash transactions relating to operating activities:** IAS 7.43 only requires disclosure of non-cash transactions about investing and financing activities in a way, not about operating activities, and there is no requirement to disclose cash flows from non-cash transactions in other accounting standards such as IFRS 7. In practice, there are many common non-cash settlement scenarios (such as endorsement of notes) that involve operating activities. It would be beneficial to disclose non-cash transactions about operating activities as they can provide useful information.

6 Practical issues of SCF of financial entities

The stakeholders generally think that SCF of financial entities provides only limited useful information, and propose that further research should be conducted to address following practical issues of SCF of financial entities and amend IAS 7 accordingly:

- **As for cash flows classification:** Investing and financing businesses are an important part of the main revenue-producing activities of financial entities and their classification as investing and financing activities does not adequately reflect their operating activities under the current provisions of IAS 7. If investing and financing businesses were classified as operating activities, cash flows in investing activities and financing activities would be small and the classification results would provide limited information. It is proposed that the IASB learn from the ideas of profit and loss classification of financial entities in IFRS 18, and make targeted improvements to the cash flows classification of financial entities.

/04

Proposals for the IASB's future work
on statement of cash flows project

According to our preliminary research, we recommend that the IASB:

- Conduct outreach in different jurisdictions to further identify the information needs of different stakeholders and the practical issues in the application of IAS 7.
- Add a research project to the work plan as soon as possible in order to address urgent practical issues.
- Strengthen the communication and collaboration with NSS, and make full use of the research results of NSS.

/05

Questions and Discussion



Discussion with AOSSG members:

- Are there any relevant research conducted in your jurisdiction?
- Are there any practical issues in application of IAS 7 in your jurisdiction? And which practical issues should be prioritized?

Thanks!