2025 Emerging Financial Reporting Issues Research Symposium

Cash Flow Information

March 1, 2024

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Official positions of the FASB are reached only after extensive due process and deliberations

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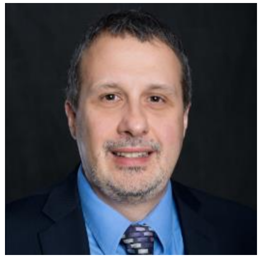
Presenters for Today's Webcast

Christine Botosan
cbotosan@fasb.org
FASB Board Member



Jeff Gabello
jjgabello@fasb.org
Supervising Project Manager

Richard Gabriel
rgabriel@fasb.org
Assistant Project Manager

Michael Minnis
michael.minnis@chicagobooth.edu
Professor of Accounting and
Charles E. Merrill Faculty Scholar

Michael Chmelar
mchmelar@fasb.org
FASB Practice Fellow

Michael Yip
myip@fasb.org
FASB Post-Doctoral Fellow

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Webinar Objective and Agenda

- Objective
  - To provide a historical view of the statement of cash flows and information about stakeholder feedback received, the status of the current projects, and potential topics for academic research
- Agenda
  - 2025 Emerging Financial Reporting Issues Research Symposium
  - History of Standards Issued
  - Stakeholder Feedback
  - Technical Agenda and International Activities
  - Potential Projects and Related Areas of Academic Research
  - Closing and Q&A

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2025 Emerging Financial Reporting Issues Research Symposium

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2025 Emerging Financial Reporting Issues Symposium

- Annual one-day research symposium co-sponsored by the FASB and the Chookaszian Accounting Research Center (CARC) of the University of Chicago Booth School of Business
  - Will be hosted at the FASB's office in Norwalk, CT on Friday, April 4, 2025
- Objective
  - Encourage and support research relevant to a financial reporting issue that is the subject of early-stage standard-setting activities
  - Provide a discussion forum for standard setters, academics, and other stakeholders
- 2025 Symposium Topic – **Cash Flow Information**

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2025 Emerging Financial Reporting Issues Symposium (Continued)

- Seeking papers that contribute to the discussion of:
  - The decision usefulness of cash flow information, including cash flow key performance indicators, such as EBITDA and free cash flow
  - The benefits and costs of alternative presentation approaches for the statement of cash flows (e.g., direct versus indirect presentation of operating cash flows)
  - The benefits and costs of disaggregated cash flow information
  - The decision usefulness of the structure of the statement of cash flows
- Call for papers - available at FASB.org/academics
  - Papers are submitted via the FASB/CARC—2024 Call for Papers Portal
  - A $75 submission fee is required for each paper
  - Paper submission deadline – November 15, 2024

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History of Standards Issued

Topic 230 – Statement of Cash Flows

- FASB Statement No. 95, Codified as Topic 230
  - Classifies cash flows as either financing, investing, or operating activities
  - Indirect and direct method options for reporting cash flows from operations
    - Indirect Method – Reconciles net income to net cash from operating activities
      - If the indirect method is used, amounts of interest paid and income taxes paid required to be disclosed
    - Direct Method – Presents the sum of major classes of gross cash receipts and payments
      - If the direct method is used, the reconciliation of net income to net cash from operating activities should be provided in a separate schedule
  - Requires the disclosure of noncash investing and financing activities

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Importance of the Statement of Cash Flows

- Paragraph 230-10-10-1
  - “The primary objective of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.”
- Helps investors, creditors, and other stakeholders assess:
  - An entity’s ability to generate positive future net cash flows
  - An entity’s ability to meet its obligations, ability to pay dividends, and needs for external financing
  - The reasons for differences between net income and cash receipts and payments
  - The effects of cash and noncash investing and financing transactions on an entity’s financial position

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Timeline of Standard Setting

APB Opinion 3

October 1963

March 1971

APB Opinion 19

FAS 95

November 1987

October 2012

ASU 2012-05

ASU 2016-14

August 2016

August 2016

ASU 2016-15

ASU 2016-18

November 2016

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Subsequent Amendments to Topic 230

- Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*
  - Classifies cash proceeds from the sale of donated financial assets without (with) donor restrictions as cash flows from operating (financing activities)
- Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*
  - Presenting the indirect method reconciliation is no longer required for not-for-profit entities preparing the statement of cash flows under the direct method

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Subsequent Amendments to Topic 230 (Continued)

- Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
  - Provides guidance on how to classify specific transactions such as debt prepayments, zero-coupon debt instruments, and insurance claim settlements on the statement of cash flows
- Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*
  - Includes restricted cash with cash and cash equivalents for the beginning and ending cash balance reconciliation on the statement of cash flows
- Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*
  - Classifies cash proceeds from converting crypto assets nearly immediately into cash as cash flows from operating activities

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Industry-Specific Guidance

Entertainment—Broadcasters

(Topic 920, Subtopic 230-45)

Entertainment—Films

(Topic 926, Subtopic 230-45)

Financial Services—Depository and Lending

(Topic 942, Subtopic 230-45)

Not-for-Profit Entities

(Topic 958, Subtopic 230-55)

Financial Services—Investment Companies

(Topic 946, Subtopic 230-45)

Real Estate—General

(Topic 970, Subtopic 230-45)

Real Estate—Time-Sharing Activities

(Topic 978, Subtopic 230-45)

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Stakeholder Feedback

2016 Agenda Consultation

- In 2016, the Board issued an Invitation to Comment, *Agenda Consultation* (2016 ITC), to give stakeholders an opportunity to provide input on the Board's agenda.
- Chapter 4 of the 2016 ITC related to *Reporting Performance and Statement of Cash Flows.*
- The Board discussed the feedback received from stakeholders at its February and May 2017 Board meetings.

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2016 Agenda Consultation (Continued)

- Stakeholders provided various ideas for improving and restructuring the statement of cash flows

Two Category Structure (Operating and Nonoperating)	Four Category Structure (Operating, Investing, Financing, and Residual)	Align Cash Flow Statement with Income Statement and Balance Sheet

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2016 Agenda Consultation (Continued)

- The Board concluded
  - Statement of cash flows currently has appropriate categories.
  - Standard-setting activities should focus on challenging issues and judgments related the classification of certain types of transactions which create diversity in practice.
- 2016 ITC led to
  - Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*
  - Update No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*

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2021 Agenda Consultation

- In 2021, the Board issued another Invitation to Comment, *Agenda Consultation* (2021 ITC)
- Chapter 1 of the 2021 ITC relates to *Disaggregation of Financial Reporting Information*
- Within Chapter 1 of the 2021 ITC, stakeholders cited a general need for greater disaggregation and granularity within financial reporting information.

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2021 Agenda Consultation (Continued)

- Investors and other financial statement users generally agreed that greater disaggregation of the statement cash flows should be a priority for the Board to help them better perform their analyses.
  - Most entities use the indirect method and investors have not raised significant concerns.
  - More supplemental disclosures for direct cash flow-like items, such as cash collected from customers, would be useful.
- Preparers cautioned that the Board should conduct a thorough and transparent cost-benefit analysis in this area.
  - There are potential complexity and associated costs with requiring the direct method.
  - They currently receive very few questions on the statement of cash flows from investors and believe that their investors receive sufficient information.

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2022 Research Agenda Project

- As a result of the feedback from the 2021 ITC, the FASB Chair added a project to the research agenda in June 2022 to explore potential improvements to the statement of cash flows.
- The staff conducted outreach to identify priorities for improvement.

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Recent Stakeholder Feedback

- Free cash flows
- Working capital reconciliations
- Cash received from customers disclosure
- Cash interest received disclosure
- Direct versus indirect methods
- Further disaggregation/disclosures
- Restructuring statement of cash flows
- Improvements for financial institutions
- Presentation/classification issues

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Regulator Interest in Statement of Cash Flows

- December 2023 SEC Statement—*The Statement of Cash Flows: Improving the Quality of Cash Flow Information Provided to Investors*
  - The statement of cash flows has been consistently a leading area of restatements.
  - The SEC believes that issuers could further disaggregate amounts reported in the statement of cash flows.
  - Issuers should think about how technology improves their ability to collect gross cash receipts payments and consider reporting operating cash flows under the direct method.
  - Stakeholders should consider engaging with standard setters when standard-setting projects have cash flow implications.

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Technical Agenda and International Activities

Technical and Research Agenda Projects

- Statement of Cash Flows—Targeted Improvements (Technical Agenda)
  - Project was added to the technical agenda at the November 8, 2023 Board meeting.
  - Improvement 1: Reorganize and disaggregate the statement of cash flows for financial institutions to improve the decision usefulness of that statement.
  - Improvement 2: Develop a disclosure about an entity's cash interest received.
  - Next Steps
    - Determine the types of financial institutions that would be subject to reorganization/disaggregation.
    - Develop revised definitions for *investing* and *financing activities* for entities within the scope of the project.
    - Determine if the cash interest received disclosure should apply to a broader group of entities, in addition to financial institutions.
- Statement of Cash Flows (Research Agenda)
  - Continue exploring improvements to the statement of cash flows to provide decision-useful information for investors and other allocators of capital

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International Activities

- IASB Primary Financial Statements Project
  - Added to agenda in response to investors' concerns about the lack of comparability and transparency of companies' performance reporting
  - Primarily deals with the income statement and requires income and expenses to be segregated by operating, investing, and financing activities
  - Different presentation requirements for entities that invest or provide financing to customers as "a main business activity"
- IASB Request for Information (2021) and Research Pipeline Project
  - Consistent with themes from the FASB's 2021 ITC, including:
    - Difficulties in reconciling the statement of cash flows to other primary financial statements
    - Greater disaggregation of certain items in the statement of cash flows is needed
    - Development of a statement of cash flows specifically for financial institutions

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Potential Projects & Related Areas of Academic Research

Research Questions

- Would additional line-item disaggregation (for example, depreciation and amortization) provide investors with more decision-useful information?
  - Comparability of more disaggregated versus less disaggregated cash flow statements
  - What is the average disaggregation by category, what are the most common categories, does the number of adjustments vary by industry?
  - Does greater alignment between the line items on the balance sheet and statement of cash flows provide more decision-useful information?
- Is the statement of cash flows relied upon by investors more for information about cash usage or information about the noncash adjustments? Is one aspect more useful than the other to investors?
  - Stock-based compensation and depreciation and amortization

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Research Questions (Continued)

- What types of non-GAAP adjustments and KPIs are provided outside the financial statements?
  - Free cash flows or industry specific metrics
- How do investors consider errors resulting in restatements in the statement of cash flows as compared with errors in other financial statements? Do preparers evaluate materiality differently when considering the cash flow statement versus other statements? If so, why and what are differences?
- What are the benefits and costs of alternative presentation approaches for the statement of cash flows?
  - Direct versus indirect presentation of cash flows from operating activities
  - Indirect method with supplemental disclosures (for example, cash received from customers)

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Research Questions (Continued)

- How do investors use the information conveyed via the current—operating, investing, and financing—structure of the cash flow statement? Are there other structures that could provide enhanced information?
- How does the disclosure only treatment of noncash transactions affect the decision usefulness of the information provided by the cash flow statement?
- Does the decision usefulness of the cash flow statement vary by industry? By type of investor?

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Closing

Q&A

Thank You