

15 May 2025

EFRAG

Email: commentletters@efrag.org

Dear Sir/Madam

Discussion Paper on the Statement of Cash Flows

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - the NASB) is pleased to respond to your invitation to comment on the discussion paper “The Statement of Cash Flows – Objectives, Usages and Issues” (hereinafter DP).

We commend EFRAG for its work on collating issues and academic research in this comprehensive publication. It is useful for the standard setter as well for the constituents to prepare for a robust and knowledge-based decision process.

To move forward on this project, it is necessary to give priority to a select few objectives. We have identified two major objectives: assessing liquidity and cash generating capacity.

We recognise most of the issues that have been identified. We also suggest one additional issue related to the lack of definition of paid interest. We have commented on the issues which we assess as having a higher priority in the future.

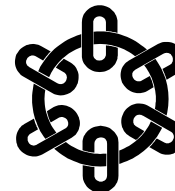
We believe that the project could be undertaken in various ways but are mostly supportive of a more comprehensive review.

Our work has been performed with limited resources and is not a complete assessment from our side. We offer our observations in the appendix to this letter.

Yours faithfully,

Bjørn Einar Strandberg

Outgoing Chair of the Technical
Committee on IFRS



Appendix

As our committee has not had the capacity to process all your questions comprehensively, we are only able to provide a somewhat limited response. For the questions we have processed, please find our comments to those questions below.

Question 1: Do you agree with the objectives in the DP?

As described by EFRAG in ES5, the information in the cash flow statements needs to be considered together with other information in the financial statements. We agree fully with this, as few, if any, of the objectives may be fulfilled by using only the cash flow statement.

Our overall assessment is that the number of objectives identified are somewhat extensive, partially overlapping and with varying degrees of relevance or importance.

We have grouped the objectives in three and suggest that different weight should be put on the three groups in the further development of the standard.

Primary objectives

- Assessing liquidity (Objective 2a)
- Assessing the ability of the entity to generate cash and cash equivalents (Objective 4)

Secondary objectives

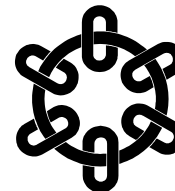
- Understanding the business (Objective 1a)
- Assessing the agility/ adaptability of the entity (Objective 3)
- Assessing the effects of different accrual accounting practices (Objective 5)
- Assessing management's general performance (Objective 6a)
- Assessing management's cash management (not treasury) (Objective 6b)

Less important objectives

- Assessing accruals (Objective 1b)
- Assessing solvency (Objective 2b)

Question 2. Are there additional manners of using the statement of cash flows than those listed?

The DP addresses many areas for the usage of the cash flow statement, and we have no further comments or input to this.



Question 3. Do you agree with the issues listed in the DP? Are there additional issues than those listed? How would you rate the various issues identified (low, medium or high priority)?

We recognise the issues listed in the DP but believe that some issues are of greater importance than others. Our comments below relate to issues that we find being of the highest importance. For issues where we do not find the importance to be high, we provide no comments.

Definitions of ‘cash’ and ‘cash equivalents’

The definition of cash in accordance with IAS 7.6 is “Cash comprises cash on hand and demand deposits”, but the term 'demand deposit' is not defined in IAS 7 *Statement of Cash Flows*. Currently the term is often referred to as deposits where the entity can withdraw cash without notice and without suffering any penalty. However, entities may assess this differently that lead to differences in what is included in cash. We also observe that there is a continuous development in payment technology and different digital currencies. We believe this warrants some kind of robust and principle-based definition of cash. It may also be helpful to identify what kind of counterparty that is able to offer a ‘demand deposit’ account, as different institutions, that are not regular banks, may offer accounts that are similar to those offered by banks.

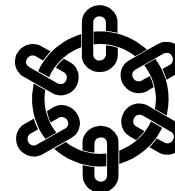
The definition of cash equivalents is clearly interpreted differently, especially how the three months’ rule is to be applied. We observe that even if it seems to be clear that the three-month rule is provided as an example of an instrument for which changes in fair value is limited due to the duration of the instrument, some nevertheless use this as an argument for including instruments that are not available for up to three months within cash equivalents. As we see it, liquidity is one of the main objectives. We would therefore encourage a stringent definition of cash equivalents that only captures items that can be used for payments within hours or days, and not months.

We believe this issue should be given high priority as it is the bedrock of the cash flow statement.

Cash flows of an agent

Cash flows of a party acting as an agent are not (always) presented in the statement of cash flows. We recognise that payments made on behalf of the entity should in most instances be recognised in the cash flow statement. However, it is not clear what constitutes an agent for the purposes of the cash flow statement.

As an example we would like to draw the attention to a very typical arrangement, namely a standard overdraft facility, with a 12 months notice period, which is the main account used for remitting funds to vendors (including capex vendors). Our experience suggests that payments drawing on such facilities are always regarded as cash outflows disregarding the fact that the



payable to the vendors (typically with a 30 days maturity) in theory are replaced by a 12 month financing by the bank. However, if the bank pays a capex on behalf of the entity and simultaneously establishes a term loan for the investment, practice may be less clear, and if the bank pays for the capex and establishes a lease agreement it is not usual to recognise this as payments made by an agent.

We think this issue should be given a medium/high priority.

Non-cash transactions

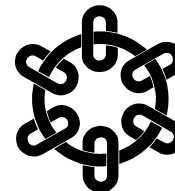
A fundamental notion of a cash flow statement is that non-cash transactions are not included. In general, we still hold this to be an important guiding light also for future standard setting.

Nevertheless, we are concerned by the current regulation for supplier finance arrangements. Based on judgement, some companies reclassify trade payables to financial debt (a non-cash transaction), with no payments for ordinary operating expenses being classified within the operating category. This may lead to less useful subtotals for cash flow generated from operations. It also reduces the ability to compare companies that are otherwise similar. We recognise that the new disclosure requirements in IAS 7 and IFRS 7 *Financial Instruments - Disclosures* will provide information that in most cases will be helpful for users as they try to adjust the figures, but we suggest other ways of solving such an issue may be contemplated. One way forward is to introduce an exception to the main rule, another to define payments performed by an agent (in this case the financing institution) such that it captures payments to the vendors in such arrangements as cash flow paid on behalf of the entity followed by an extended period of credit which represents financial cash flows. It is not easy to explain why such an arrangement is very different from a regular overdraft account which is used to pay vendors. We think this issue should be given high priority, as the supplier finance issue is on the rise.

Currently non-cash transactions are presented/disclosed in two ways. Firstly, non-cash transactions that affect profit are under the indirect method reversed on the face of the cash flow statement to arrive at operating cash flows. For example, this relates to non-cash charges for share-based remuneration. Secondly, non-cash transactions are disclosed in the notes. These notes may be hard to locate as there is no natural cross-reference from the cash flow statement for a non-cash amount.

We suggest that an open reconciliation methodology could be considered also for non-cash transactions that do not affect profit, such as payments for PP&E using own shares. By showing first the additions to PP&E as they are recognised in the balance sheet as an investing activity, and then reconcile this back to cash flow by adding one or two more line items (e.g. explaining changes in payables related to investing and payments made in own shares) we believe that non-cash transactions are more prominently disclosed and facilitate adjusting the information according to the user's needs. Similarly, within financing any share-issue for non-cash could be shown gross with the non-cash component being reversed out.

Overall we believe that the issues relating to non-cash transactions should be given high priority.



Cohesiveness with other primary financial statements

We recognise that when IFRS 18 *General Presentation and Disclosure* changes the statement of profit or loss so it contains operating, investing and financing categories, this may cause confusion among the users. If IAS 7 is to be updated or replaced, we support updating the definitions of the categories to avoid this problem.

Disclosure requirements

An issue that was not included in the DP is the lack of guidance for the current requirement of IAS 7 to disclose the “total amount of interest paid”. While detailed guidance is provided to include interest paid even if it has been capitalised, there is no other guidance as to what constitutes **paid** interests.

We believe it should be clarified whether interest paid should be defined according to the contractual arrangement between the parties, or by using some sort of the effective interest method.

After IFRS 16 became effective, for lease liabilities, interest paid is calculated using the rate originally identified when measuring the lease liability. For some type of leases, the lease payment specifies some sort of interest portion, but this is typically not the same amount as using the IFRS 16 interest portion.

For other liabilities, we observe that there is diversity in practice. Some regard paid interest as those that are labelled as interest between the parties based on the terms of contract. Others use effective interest and present the difference between the amount paid in total (whether it is labelled interest, instalment or some other name) and the effective interest rate as a repayment of the liability (or draw down as may be). In effect that the interest is regarded to be paid before any instalment.

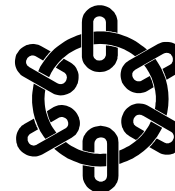
Finally, it is not clear whether transaction costs related to a new borrowing should be regarded as an interest (pre)payment or whether it should be presented net with the proceeds of the new borrowing.

We believe that comparability could be obtained relatively easily by establishing a simple principle of using some sort of effective interest rate in identifying paid interest.

Aggregation/disaggregation of information

We perceive that IFRS 18 will provide the necessary guidelines for presentation, disaggregation, aggregation and net/gross presentation also for the statement of cashflow.

For any new disclosure requirement related to particular cash flow information, we recommend that these requirements should be specified in the standards that deal with the



special items, such as IFRS 3 *Business combinations* or IFRS 7. Having said that, we believe that a combined note for the cash flow statement, similar to the requirement for leases, should be contemplated.

Question 4a) Do you think that some non-cash transactions should be presented in the statement of cash flows? If so, which?

As discussed in question three, our assessment of the cash flow statement should reflect cash transactions for the company and believe this should still be a fundamental notion.

However, we suggest above considering to include non-cash transaction openly in the cash flow statements in the form of reconciling line items also for non-operating transactions. By providing both the accrual amount and the non-cash component arriving at the cash flow we think this would increase the comprehensiveness and support a better understanding of the cash flow generating capacity.

See also our comment above related to supplier finance arrangements.

Question 4b) Instead of presenting non-cash transactions in the statement of cash flows, do you think additional disclosures should be provided about these transactions?

The current requirement for note disclosure for non-cash transactions in IAS 7.4, is considered adequate. However, we recognise that the information might be scattered and less accessible than disclosure requirements directly to the cash flow. Since non-cash transactions are not included in the cash flow statement, it might also be challenging where to include the disclosure references.

We therefore reiterate that requiring a separate single note to provide additional information about the cash flow statement should be contemplated. This would include the reconciliation table in IAS 7.44A and information about non-cash transaction among others.

We have no comments to the remaining questions.