European Securities and Markets Authority

The Chair

Date: 30 October 2013
ESMA/2013/1554

Wayne Upton
Chairman of IFRS IC
Cannon Street 30
London EC4M 6XH
United Kingdom

Agenda item request: Condensed statement of cash flows

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

As a result of the review of financial statements carried out by national competent authorities and ESMA's co-ordination activities we have identified an issue related to the application of IAS 34 – *Interim Financial Reporting* which we would like to bring to the attention of the IFRS Interpretations Committee for further consideration.

A detailed description of the case is set out in the appendix to this letter.

We would be happy to further discuss this issue with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

APPENDIX – DETAILED DESCRIPTION OF THE ISSUE

1. As part of its monitoring and supervisory activities, ESMA and national enforcers have identified divergent application of IFRS requirements regarding presentation of the condensed statement of cash flows in the interim financial statements.

Description of the issue

2. Issuers have divergent views on the application of the IAS 34 requirements regarding presentation and content of the condensed statement of cash flows. Some issuers present in their condensed interim financial statement a three-line condensed statement of cash flows that shows only a total for each of operating, investing and financing activities even though the nature of activities under each total might be diverse. Other issuers present a more detailed structure of the condensed statement of cash flows reflecting the different nature of activities.

3. Pursuant to paragraph 8 of IAS 34 an entity shall present a condensed statement of cash flows in its interim financial report. Paragraph 10 of IAS 34 requires the condensed statement of cash flows to include, at a minimum, each of the headings and subtotals included in the most recent annual financial statements and requires additional line items to be included if their omission would make the condensed interim financial statements misleading.

4. Paragraph 4 of IAS 1 – *Presentation of Financial Statements* specifies that paragraphs 15 - 35 of IAS 1 apply to the condensed interim financial statements prepared in accordance with IAS 34.

5. Paragraph 17(b) of IAS 1 requires information to be presented in a manner that provides relevant, reliable, comparable and understandable information.

6. Paragraph 29 of IAS 1 requires each material class of similar items to be presented separately. In addition, it requires separate presentation of items of a dissimilar nature or function unless they are immaterial.

View 1

7. Proponents of View 1 argue that a three-line condensed statement of cash flows will not meet normally requirements of paragraphs 17(b) and 29 of IAS 1.

8. For example, a single line named '*cash flows from investing activities*' without any further explanation might be insufficient in relation to the requirements of paragraph 17(b) of IAS 1. If cash flows from investing activities arise, e.g. from investments in fixed assets and financial assets, these

should be stated explicitly and reported separately, as the risk of the future cash flows will be different.

9. The same observations may be made regarding cash flows from financing activities. A single line called '*cash flows from financing activities*' provides no information as to whether this refers to loan drawdown or repayment, dividend payment or other financial or equity transaction.

10. According to paragraph 21 of IAS 7 – *Statement of Cash Flows*, an entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. Proponents of view 1 thus argue that normally, it will be necessary to report issuance and repayment of debt on a gross basis in the condensed interim statement of cash flows in order for the information to be relevant, reliable, comparable and comprehensible.

11. Finally, when the statement of cash flows is prepared using the indirect method, reconciliation between profit or loss and cash flows from operating activities needs to be presented. Paragraph 20 of IAS 7 requires presentation of adjustments of profit or loss for the effects of transactions of non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments when reporting cash flows from operating activities. Proponents of view 1 argue that paragraph 17(b) of IAS 1 requires such reconciliation to be provided in the condensed interim financial statements as well. In their view, reconciling items may be aggregated in the condensed interim statement of cash flows, but material non-cash transactions and changes in working capital should be presented separately.

View 2

12. Proponents of view 2 argue that, if the only headings and subtotals in the statement of cash flows included in the entity's most recent annual financial statements referred to the three lines (i.e. cash flows from operating, investing and financing activities) an entity presenting a three-line condensed statement of cash flows fulfils the requirements of paragraph 10 of IAS 34.

13. In their view, the IASB included a very high threshold in IAS 34 (condensed interim financial statements being misleading) to trigger reporting of additional line items in the condensed interim financial statements.

Request

14. ESMA questions whether presentation of a three-line condensed statement of cash flows meets the requirements of IAS 34 read together with the principles included in IAS 1 and IAS 7. However, ESMA acknowledges that the wording of requirements in paragraph 10 of IAS 34 might conflict with these principles. Based on the discussion of the issue in European Enforcers Coordination Sessions

(EECS), ESMA found that enforcers in at least seven EU Member-States have encountered presentation of a three-line condensed statement of cash flows.

15. Accordingly, ESMA kindly suggests that IFRS Interpretations Committee considers clarifying the accounting requirements in this respect.