The future of financial reporting 2026: The statement of cash flows.

ACCA

A discussion paper based on the British Accounting and Finance Association (BAFA) Financial Accounting & Reporting Special Interest Group (FARSIG) Virtual Symposium, 9 January 2026

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THE FUTURE OF FINANCIAL REPORTING 2026:

THE STATEMENT OF CASH FLOWS

A discussion paper based on the British Accounting and Finance Association (BAFA) Financial Accounting & Reporting Special Interest Group (FARSIG) Virtual Symposium, 9 January 2026.

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About the Financial Accounting and Reporting Special Interest Group (FARSIG).

FARSIG is a group set up under the aegis of the British Accounting and Finance Association (BAFA). The main purpose of FARSIG is to further the objectives of BAFA and for that purpose to:

- encourage research and scholarship in financial accounting and reporting
- establish a network of researchers and teachers in financial accounting and reporting
- enhance the teaching of financial accounting and reporting
- provide support for PhD students in financial accounting and reporting
- develop closer links with the accountancy profession in order to inform policy
- publish a newsletter and organise targeted workshops
- develop and maintain relationships with BAFA and the professional accountancy institutes
- provide a forum for the exchange of ideas among accounting academics.

The symposium, which is one of an annual series that started in 2007, provides a forum for academic, practitioner and policy-orientated debate. Such forums are useful for expressing and developing rounded opinions on the current meta-issues facing financial reporting. Furthermore, they serve to illustrate the policy relevance and impact of current academic and practitioner thinking and outputs, in accordance with calls from the Economic and Social Research Council for relevant and rigorous research combining practitioner and academic perspectives.

The authors would like to express their thanks to the four main speakers, both for their speeches and for their subsequent time and comments during the development of this discussion paper. The authors have tried to capture faithfully the flavour of the original speeches. Nonetheless, although the original speakers were shown the commentary on their presentations, any errors or omissions remain our own. Thanks are also due to the Association of Chartered Certified Accountants (ACCA) for hosting the symposium and for its support of the publication of this discussion report. Finally, could any readers who wish to learn more about FARSIG or to become FARSIG members please contact any one of the authors.

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Contents.

Foreword 4

Executive summary 5

1. Introduction 6

2. Symposium 9

2.1 Academic presentation: The statement of cash flows – A literature review 9

2.2 UKEB presentation: UKEB research – Statement of cash flows and related matters 13

2.3 IASB presentation: Statement of cash flows and related matters 15

2.4 Practitioner presentation: Challenges and opportunities for integrating ESG factors – an investor's perspective 19

2.5 Panel discussion 23

3. Discussion and conclusion 27

References 30

Foreword.

ACCA was pleased to host the 2026 FARSIG symposium, which focused on the statement of cash flows and related emerging issues.

This year's panel represented academia, professional accountants, standard setters and investors. Collectively, they leveraged empirical evidence and regulatory and practical user-focused considerations in their discussions about the future development of requirements for the preparation of cash flow statements.

Overwhelmingly, all speakers agree with the value of cash flow through its strong connection to stock prices, returns and indicators of financial distress, although this value is more likely to lie in cash flow forecasting and the value is unequal across sectors. For example, investors struggle to understand which parts of the cash flows of financial institutions are most relevant to them.

There were proposals for enhancing the relevance and clarity of cash flow statements to support better prediction of future cash flows: for example, preferring the use of the direct method of presentation with greater disaggregation and better classifications on the face of the statement as well as reporting free cash flows. The latter is perhaps another form of management-defined performance measure.

Cohesiveness and coherence through connectivity is a theme frequently arising in corporate reporting, and the symposium's solutions ranged from reconciling changes to balance sheet line items, including the effects of business combinations, factoring and reverse factoring, to developing a three-dimensional structured statement linking all financial statements and transactions where consideration is given to non-cash transactions. Today, non-cash transactions are often poorly disclosed: for instance, scattered and/or incomplete.

Arguably, these solutions could address some of the connectivity concerns between the primary financial statements – one of many concerns in the research and input to the symposium by the UK Endorsement Board (UKEB).

The UKEB's contribution also highlighted a distinct need for 'net debt' and 'working capital' to be defined and used consistently as this would enable greater comparability and transparency between corporate reports.

The connectivity between financial statements extends to greater connectivity in financial reporting requirements too – many standards include requirements for disclosures in the income statement and/or balance sheet, but limited cash flow disclosures.

Finally, driving sustainable businesses – defined as those that generate profits responsibly for the long term, raises interesting questions about the relationship between earnings and cash flows, and the impact of social and environmental factors on organisations' current and future cash flows. Today such factors are rarely explained in cash flow statements or related disclosures. The reporting of sustainability-related financial disclosures may fill this gap through complementary information.

Given this backdrop of value from the cash flow statement, and the challenges and potential solutions highlighted by the symposium, ACCA welcomes a project by the International Accounting Standards Board (IASB) that aims to improve cash flow disclosures. We believe the IASB will benefit from further outreaches and consultations to ensure that new or modified requirements are pragmatic and proportionate to the circumstances of organisations applying the International Financial Reporting Standards (IFRS) Accounting Standards. To this end, we hope that the discussions of this symposium will support their project, as well as improving the current reporting of many organisations.

Sharon Machado
Head of Sustainable Business, Policy and Insights, ACCA

Executive summary.

This discussion paper summarises the virtual 2026 FARSIG symposium on the topic 'The future of financial reporting 2026: The statement of cash flows'. The symposium featured four presentations by high-profile speakers: an academic presentation by Zhan Gao from Lancaster University, a UKEB presentation by Matthew Tilling, an IASB presentation by Nick Anderson and a practitioner presentation by Nikhil Chouguley from Sustopia Capital. The symposium also included a panel discussion.

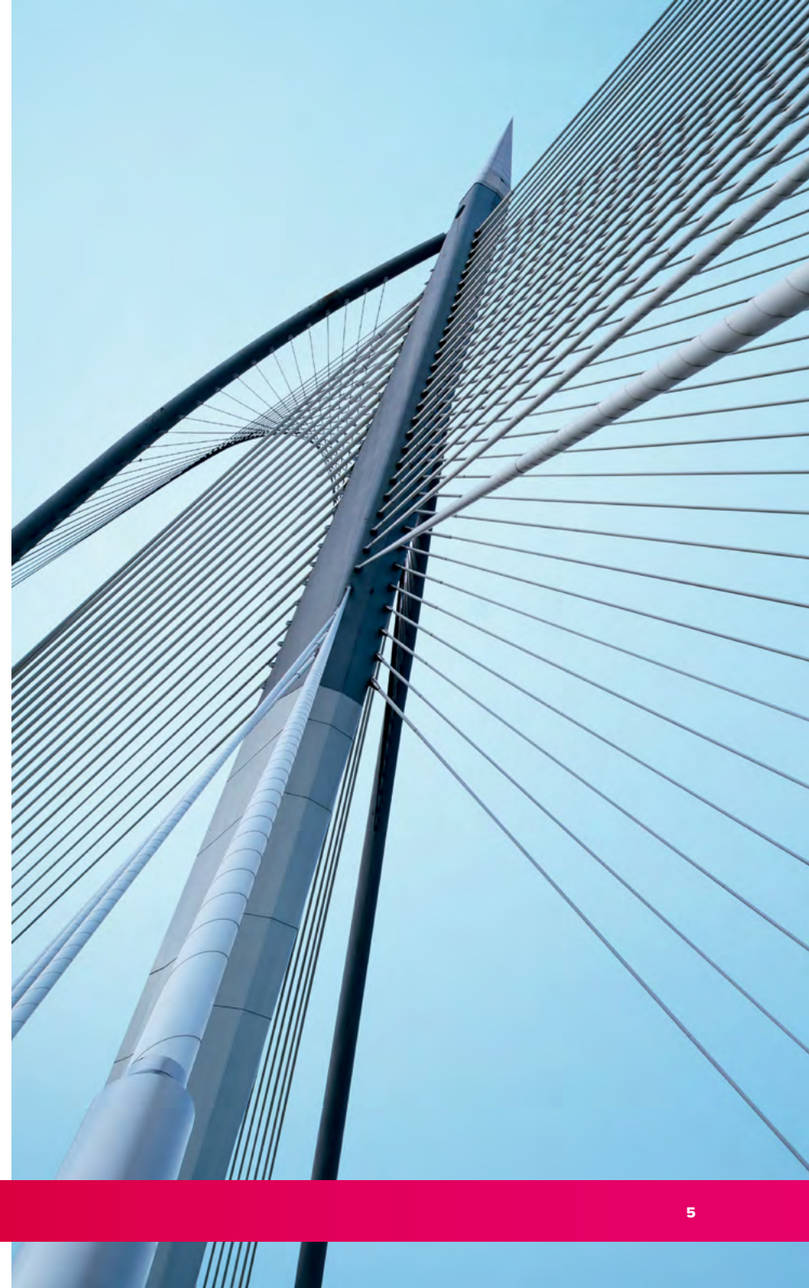
The academic presentation reviewed the empirical academic literature, and concluded that the statement of cash flows provides useful information. It also provided three alternative designs of the statement of cash flows, developed by academics.

The UKEB presentation summarised the UKEB's research on the statement of cash flows and related matters. UK stakeholders consider that there are opportunities for improving cash flow (and non-cash) information, including requiring supplementary disclosures such as a reconciliation of net debt.

The IASB presentation outlined the IASB's project on the statement of cash flows and related matters. The project will explore disaggregation, non-IFRS cash flow measures, non-cash transactions, consistent application and applicability for financial institutions.

The practitioner presentation explained that there is a need for equity and debt valuation models that incorporate environmental, social and governance (ESG)-related impacts, risks and opportunities, and financial statements (including the statement of cash flows) need to evolve to provide the necessary information.

Finally, a panel discussion explored several related issues. Both the UKEB and IASB are interested in research on the usefulness of the statement of cash flows of financial institutions. In general, academic research can provide important evidence for the work of regulators.



1. Introduction

Amid a turbulent social, economic and political landscape, the 2026 19th FARSIG annual symposium on the 'Future of Financial Reporting' took place, in collaboration with the ACCA on Friday, 9 January 2026. The event was held within a broader context of current developments and challenges confronting the accountancy profession. The discussions engaged with issues that are firmly established within both professional practice and academic scholarship, while simultaneously adopting a forward-looking perspective.

In keeping with tradition, the 2026 FARSIG symposium served as a policy-oriented forum for both academics and practitioners to engage in a state-of-the-art discourse. This year, the title of the symposium was 'The Future of Financial Reporting 2026: The Statement of Cash Flows'. This topic is relevant to current concerns because the statement helps users assess the liquidity, solvency and financial flexibility of a corporate entity, providing information that complements that presented in accrual-based statements. It is also particularly timely, as the statement of cash flows is currently on the agenda of the IASB, which, in January 2026, decided to move the project from the research programme to its standard-setting work plan. Starting in September 2024, the research project was launched in response to feedback on the IASB's Third Agenda Consultation, where many respondents, including most of those users of financial statements who commented, rated a project on the statement of cash flows and related matters as a high priority. This view is further supported by the anonymous poll conducted during the symposium, in which 92% of respondents deemed the IASB's statement of cash flows and related matters project to be 'important' or 'very important'.

The symposium featured the following well-informed, high-profile speakers – listed below in alphabetical order – to discuss current developments that affect the future of financial reporting:

- **Nick Anderson**, Board Member, International Accounting Standards Board (IASB)
- **Nikhil Chouguley**, Fellow Certified Chartered Accountant, Equity Partner at Sustopia Capital
- **Zhan Gao**, Senior Lecturer at Lancaster University Management School
- **Matthew Tilling**, Senior Project Director, UK Endorsement Board (UKEB).

These four distinguished speakers were convened virtually to present and critically discuss emerging trends and contemporary challenges, and their expected implications for the future of financial reporting.

Specifically, these academic and professional experts provided the audience with informed perspectives on key current issues within the accountancy profession, drawing on their respective experiences to illustrate and contextualise these developments on the statement of cash flows, which characterise the daily work of accountancy professionals and pose significant challenges to accounting regulatory bodies, professionals and academics.

As in recent years, the symposium was held via a virtual platform, with the objective of enhancing inclusivity and enabling the active participation and engagement of a global audience of academics and practitioners. The presentations were subsequently followed by an intellectually engaging panel discussion, moderated by the Chair of FARSIG. During this session, the speakers provided expert perspectives in response to a diverse range of questions, with particular emphasis on the cash flow statement, its role and structure, its relationship with sustainability reporting, the prospective trajectory of academic research in this domain and the associated implications for the development of accounting standards and practice.

Key issues raised during the symposium

The main themes presented and debated at the symposium are briefly summarised in Table 1. Table 1 also provides an overview of the key themes raised at the 'Future of financial reporting' symposia since its inaugural event in 2008. In 2026, the speakers' presentations focused on the statement of cash flows, while also addressing, to a lesser extent, sustainability reporting. Specifically, during this year's symposium, there was a critical examination of some of the key open questions on the statement of cash flows and how ESG-related information could be integrated. The discussion addressed both the opportunities and challenges associated with this statement, highlighting how accountancy professionals could leverage it to enhance the relevance and reliability of corporate reporting practices.

Table 1: Overview of key symposia themes, 2008–2026

2026	**Statement of cash flows** **Sustainability reporting**	2025	Accounting and technology Accountancy profession	2024	Accounting and reporting for private companies Accounting education and training Accounting and technology	2023	Accounting for goodwill Accounting for intangibles Research and development reporting	2022	Materiality in sustainability reporting Sustainability reporting in capital markets Sustainability reporting for market players Climate-related disclosures prototype A roadmap to improve sustainability reporting
2021	The Endorsement Board Reliability of financial reporting in extraordinary times Narratives in corporate annual reports The standard setting for financial and non-financial information	2020	Accounting regulation for non-financial information Accounting for intangibles Accounting profession Integrated Reporting	2019	Conceptual framework Narratives in corporate annual reports Accounting in the public sector	2018	The role of accounting in shaping capitalism The role of Big Data and AI in corporate reporting and investment Digital reporting Conceptual Framework Integrated Reporting	2017	The evolution of corporate reporting Corporate reporting vs financial reporting Financial narratives Accounting profession Future of Chinese and Western auditing
2016	The use of information by capital providers Conceptual Framework: measurement Transparent corporate reporting Integrated reporting and the capital markets The perceived role of the accountant in the society	2015	Accounting for goodwill Corporate governance Integrated reporting Sustainability accounting IASB and politicisation of standard-setting	2014	Conceptual Framework, measurement EU Accounting Directive for SMEs UK FRS: tax implications The use of information by capital providers Compliance with mandatory disclosure requirements	2013	Conceptual Framework, recognition and measurement Regulatory Framework, governance and 'balanced reporting' IFRS adoption and national accounting practices Nature and complexity of crises	2012	Asset and liability recognition Measurement, fair value and confidence accounting Regulatory Framework and complexity of financial statements Fraud and accounting scandals
2011	Complex financial instruments, asset and liability recognition and measurement Regulatory environment, complexity of financial statements IFRS adoption and political interface Carbon accounting	2010	The role and need for global accounting standards Understandability and usefulness Political concerns Sustainability accounting	2009	Regulatory change The convergence of global standards through IFRS Fair value Corporate governance Asset securitisation and the 'credit crunch'	2008	Conceptual Framework Income measurement Fair value Financial communication		

Sources: Aresu et al. 2025; Gaia et al. 2022, 2023, 2024; Jones and Slack 2008, 2009, 2010, 2011, 2012, 2013; Jones et al. 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021.

The presentations and the following panel discussion addressed questions that are highly relevant to the accountancy profession, such as: Is the combined use of direct and indirect methods of reporting operating cash flows more relevant than use of a single method? Do corporate entities classify cash flows opportunistically in response to capital market pressures? Why do corporate entities voluntarily disclose free cash flow? What is the relevance of the cash flow statement in financial institutions? How should the statement of cash flows be designed and presented? Do current reporting practices under IAS 7 meet their users' needs? How can IAS 7 be improved? Which of the requirements coming through with IFRS 18, effective from 1 January 2027, are relevant to cash flow? How can we make corporate entities go beyond the compliance mentality about the cash flow statement? How can cash flow statements be expanded to incorporate ESG-related information?

Addressing these questions is important for advancing the role of the accountancy profession and strengthening the contributions of practitioners, with the objective of ensuring relevant and reliable information for decision-making, as well as promoting effective stewardship over both financial and non-financial resources employed in corporate activities.

Background

IAS 7 *Statement of Cash Flows* was issued in 1992 by the International Accounting Standards Committee and was subsequently revised several times (eg in 2016). Additionally, the issuance of IFRS 18 *Presentation and Disclosure in Financial Statements* by the IASB in 2024, effective for annual reporting periods beginning on or after 1 January 2027, has led to consequential amendments to IAS 7. These amendments aim to improve the presentation, in the statement of cash flows, of information on how a corporate entity's cash and cash equivalents change over a reporting period. For this purpose, cash comprises cash on hand and demand deposits, whereas cash equivalents consist of short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

These amendments are primarily aimed at improving consistency between the statement of cash flows and the statement of profit or loss. In particular, the amendments enhance the alignment of cash flow classifications (operating, investing and financing) with the newly defined categories in IFRS 18. They also provide clearer guidance on the classification of interest and dividends, promoting greater comparability across corporate entities. Furthermore, the changes support improved transparency by strengthening the linkage between reported cash flows and other financial performance measures, thereby improving users' understanding of how cash is generated and used within an entity.

Before these amendments, corporate entities applying the indirect method to present cash flows from operating activities were required to begin the reconciliation with profit or loss, as reported in the statement of profit or loss. Following the introduction of a mandatory disclosure of operating profit under IFRS 18, the starting point of this reconciliation has been revised: preparers are now required to start the reconciliation from operating profit. In addition, IAS 7 no longer employs the term 'cash generated from operations', which has been replaced with 'cash from operating activities before income taxes', thereby aligning its terminology with the revised presentation requirements introduced in 2024.

The IASB is, at the time of writing, working to improve the requirements of IAS 7, with an exposure draft planned for 2027.

The issues addressed during the symposium are set in the context of the current work of the IASB.

2. Symposium

2.1 Academic presentation: The statement of cash flows – A literature review

Zhan Gao is senior lecturer at Lancaster University Management School, where his research addresses several core areas of financial accounting. His principal interests encompass equity valuation, financial statement analysis, financial statement presentation and executive compensation, drawing on both archival empirical research and analytical modelling. He serves on the editorial boards of several academic journals, including *Accounting and Business Research and Journal of International Accounting Research*. His work has appeared in *The Accounting Review* and other leading journals. Beyond academia, Zhan actively engages with accounting standard setters, leveraging his research to inform and influence standard-setting deliberations.

2.1.1 Overview

Zhan presented a review of literature on the statement of cash flows. He organised his presentation around two principal dimensions: a review of the empirical evidence on the properties and uses of the cash flow statement, and an examination of a select body of normative research proposing alternative designs for that statement. By doing so, Zhan aimed to offer a structured account of the extant knowledge, drawing attention to areas where the evidence remains more limited or where the academic conversation anticipates forthcoming standard-setting deliberations.

2.1.2 Empirical evidence

Zhan began by addressing what he described as the foundational question underpinning the cash flow statement, namely the relative merits of accrual accounting versus cash accounting. In relation to the cash flow statement specifically, he underlined that the empirical literature broadly converges on the view that cash flow information is useful. More precisely, for equity holders and investors, cash information obtained from the statement of cash flows has been shown to be associated with stock prices and returns, and to possess predictive power with respect to future cash flows and earnings. This predictive capacity, Zhan noted, is central to the usefulness of accounting information and provides a direct rationale for the existence of a dedicated cash flow statement. He also noted that, while it is well established that earnings generally outperform cash flows as predictors of future performance, both types of information are incrementally useful. That is, each contributes information beyond what the other provides, a finding that he underscored as the conceptual foundation justifying the standalone presentation of cash flows alongside the income statement and balance sheet. With respect to debt holders and lenders, the consensus in the literature is that cash flow information usefully informs assessments of a firm's financial condition and can predict financial distress and failure.

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Among the specific issues addressed in the presentation, Zhan observed that scholars' attention has been attracted by the choice available in IFRS between the direct and the indirect method of reporting operating cash flows. Empirical evidence strongly favours the direct method, which Zhan described as providing more useful information for predicting future cash flows and earnings, and of being more value relevant. In addition, the direct method presents individual cash receipts and payments from operating activities, while the indirect method begins with net income and reconciles it to operating cash flows through accrual adjustments. Zhan, however, emphasised that the indirect method retains its own informational value precisely because those reconciliation items capture the accrual components of accounting, making each method incrementally informative in relation to the other. In his opinion, just as cash flow adds informational value beyond the earnings figure, so too does the combination of both methods exceed the contribution of either one alone.

The second specific issue concerned the classification and disaggregation of cash flows. On the classification side, Zhan noted that firms have been shown to classify cash flows opportunistically, particularly cash flows from operating activities, in response to capital market pressures. Financially weak firms, for instance, have exhibited a tendency to classify cash interest payments as financing rather than operating outflows, a practice that was possible under the discretion afforded by older standards but has since been curtailed by the amendments introduced by IFRS 18. He was careful to point out, however, that the key insight from this body of research persists whenever standards leave room for classification choices, which is inevitable given the need for a degree of flexibility, and firms have incentives to exercise that discretion in ways that portray their financial position optimistically. On the disaggregation side, the evidence is more limited but nonetheless consistent in suggesting that disaggregated cash flow information improves the prediction of future cash flows and earnings, with different components contributing differently to that predictive power. Zhan noted that this finding aligns with a broader theme running through accounting research: greater granularity in reported information tends to enhance its usefulness for decision-making.

'Investor demand has led an increasing number of firms to voluntarily disclose figures for free cash flow over time. Zhan noted that this voluntary disclosure has historically been accompanied by definitional inconsistency, causing confusion among users.'

The third specific issue addressed by Zhan concerned free cash flow, which he described as a finance rather than an accounting concept in the strict sense, since no accounting standard mandates its presentation. Nevertheless, investor demand has led an increasing number of firms to voluntarily disclose figures for free cash flow over time. Zhan noted that this voluntary disclosure has historically been accompanied by definitional inconsistency, causing confusion among users. The new standard IFRS 18, by bringing free cash flow within the scope of management-defined performance measures, is expected to improve the quality of disclosure even if some inconsistency persists. Zhan observed that the evidence points to coexisting opportunistic and informational motivations for disclosing free cash flow, with some firms disclosing it to present a more favourable picture of their financial position and others doing so to genuinely inform investors. He also

stressed that the informational value of free cash flow disclosures is particularly evident for those firms characterised by higher information asymmetry, including younger companies and those operating in high-technology industries.

The fourth and final specific issue concerned the cash flow statement as applied to financial institutions. Zhan acknowledged that the evidence on this topic is limited, but the existing studies yield a nuanced picture. On the one hand, the cash flow statement for financial institutions is found to be value-relevant and capable of predicting future cash flows and earnings. On the other hand, when considered in the presence of other financial statements, that incremental usefulness diminishes considerably, a finding that stands in sharp contrast to the evidence for non-financial firms, where the cash flow statement consistently retains its incremental value alongside the income statement and balance sheet. Similarly, research suggests that the statement of cash flows for financial institutions does not reliably predict bank failure once other financial statement information is available.

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2.1.3 Alternative designs

Having reviewed the empirical evidence, Zhan turned to a set of normative studies proposing alternative designs for the statement of cash flows. He presented three such proposals, each seeking to address perceived limitations in the current presentation format.

The first proposal, advanced by Dichev (2021), reorients the statement of cash flows to the perspective of equity holders. In practice, this design retains the operating and investing sections in their current form but relocates them towards the bottom of the statement, while introducing a separate and prominent section dedicated to cash flows to equity holders, which under the current format is subsumed within a broader financing activities section that also encompasses cash flows relating to debt holders. The motivation for this reorganisation, Zhan argues, is to achieve consistency with the equity focus of the other two primary financial statements and to facilitate investor forecasting and valuation. In addition, he noted that the proposal would be straightforward to implement, as it involves a reorganisation of existing information rather than the collection of new data.

The second proposal, based on Penman (2013), involves a more fundamental reformulation of the presentation structure, though again without requiring any additional information from preparers. The defining feature of this design is the explicit reporting of free cash flow on the face of the statement. As Zhan observed with some interest, this proposal was advanced more than a decade ago, at a time when free cash flow occupied a less prominent place in financial analysis, and yet the subsequent rise in the importance attributed to that measure in practice has lent the proposal greater relevance over time. In structure, the reformulated statement resembles a balance sheet with two panels. The first, an operating section, presents net operating cash flows less net cash investment, yielding free cash flow as the bottom line. The second panel presents the various financing activities in the broader sense, summing to a net financing cash flow figure. The two panels are connected by the conservation-of-cash principle: free cash generated by the firm must be deployed through some form of financing activity, so the two bottom lines are equal and opposite in sign. Zhan noted that while the terminologies used in this design may appear familiar, they carry definitions that differ in important ways from those employed in the existing cash flow statement, requiring careful interpretation.

The third proposal, developed by Gao and O'Hanlon (2026) and termed the three-dimensional statement of cash flows, is more ambitious in scope and is designed to address several co-existing limitations of the current format. The first limitation is the weak articulation between the cash flow statement and the other primary financial statements. At present, the cash flow statement is linked to the income statement through the starting figure of net income in the indirect method, and to the balance sheet through the reconciliation of opening and closing cash balances. Zhan noted that users and standard setters have expressed concern that these two connection points are insufficient and that the statement remains too isolated from the broader financial reporting package.

An additional concern relates to non-cash investing and financing activities. Under US GAAP, firms are required to disclose material non-cash transactions in a supplemental schedule appended to the cash flow statement. As no equivalent requirement exists under IFRS, it makes it difficult for users to locate information about economically significant transactions that do not generate immediate cash flows. Zhan emphasised that such transactions are often economically comparable to their cash counterparts and therefore attract a meaningful demand for disclosure. Finally, currently firms use either the direct or the indirect method, but both methods provide incrementally useful information, as previously explained.

The three-dimensional design responds to these concerns through a matrix structure in which the columns capture reconciliation items across all three sections of the statement, not merely the operating section as in the indirect method, and the rows present direct cash flows for each section. The third dimension is introduced through what Zhan termed 'intersection connections', which make explicit the cross-sectional effects of transactions that simultaneously affect multiple categories. As an example, an acquisition of property, plant and equipment through mortgage financing affects both the asset and liability sides of the balance sheet, and the proposal renders these linkages visible within the statement itself. Zhan acknowledged that this design requires additional information from preparers, and that its adoption would therefore involve weighing preparation costs against the informational benefits for users.

2.1.4 Concluding remarks

In concluding his presentation, Zhan drew attention to the complementary relationship between the empirical and normative streams of research he had reviewed. The empirical evidence establishes that the cash flow statement, in its current form, conveys useful information to both equity and debt holders, that disaggregation and the direct method enhance this usefulness, and that classification choices remain a source of managerial discretion with implications for reporting quality. The normative proposals he presented all seek, in different ways, to build upon this empirical foundation: by aligning the statement better with the information needs of equity holders, by making free cash flow explicit on the face of the statement or by strengthening the connections between the cash flow statement and the broader financial reporting system. As standard setters engage with potential revisions to the existing standard, Zhan suggested that academics are well placed to contribute by drawing on this body of evidence to inform and enrich the policy debate.

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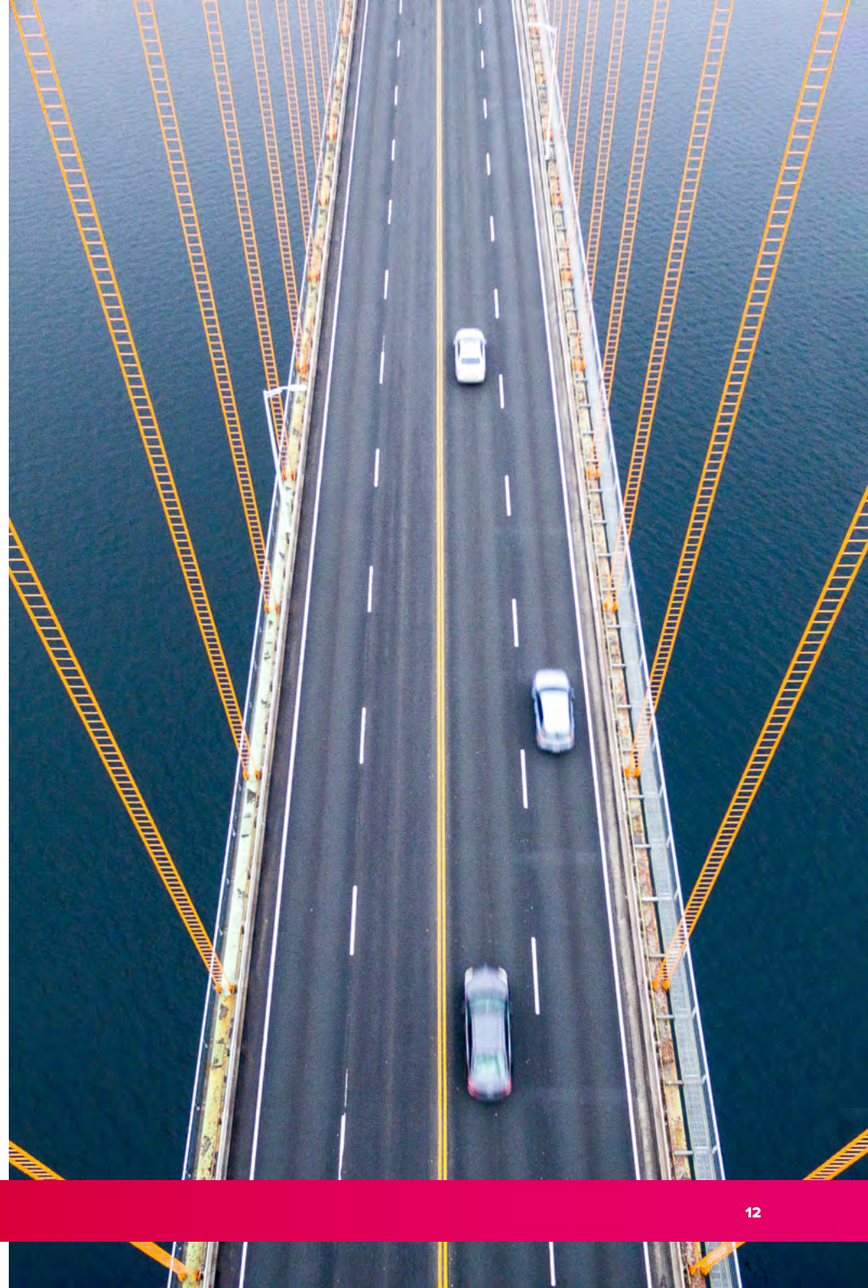


2.2 UKEB presentation:
UKEB research – Statement of cash flows and related matters

Matthew Tilling is a senior project director at the UK Endorsement Board (UKEB). The UKEB is responsible for endorsing IFRS for use in the UK and contributes to the development of international accounting standards by engaging with stakeholders and providing evidence-based feedback to the IASB. In addition to its endorsement role, the UKEB undertakes research and thought leadership activities and works closely with academics and practitioners to inform the development of accounting standards.

2.2.1 Background

Matthew presented the findings from a UKEB research project examining the statement of cash flows and related matters. The project was initiated in October 2024 in response to strong interest from UK stakeholders, who emphasised the importance of cash flow information in financial reporting. The objective of the research was to build an evidence base that could inform the IASB's work in this area and ensure that any future amendments to the accounting standards reflect the needs and perspectives of UK stakeholders.

The research combined several methods, including financial statement analysis that involved a review of non-mandatory disclosures (ie those 'encouraged' by IAS 7), voluntary disclosures and other cash flow measures made by UK listed companies, interviews with investors, creditors and preparers, and a user poll.

The project produced several research papers within the timeframe of December 2024 to December 2025. Matthew's presentation focused on three of these research outputs, namely the background to and key issues with the statement of cash flows and related matters, the landscape of non-mandatory and voluntary disclosures by UK-listed companies, and UK user and preparer perspectives.

2.2.2 Key research findings

A central conclusion emerging from user interviews is that the statement of cash flows is regarded as a key financial statement, particularly for non-financial institutions. Some users even argued that the statement of cash flows is more important than the income statement. They emphasised the need for clearer explanations of both cash and non-cash movements, as well as improved linkages between information presented in different parts of the financial statements.

2.2.3 Opportunities for improvements

Financial statement cohesiveness

One of the main opportunities identified by UK stakeholders is improving the cohesiveness between the statement of cash flows and other primary financial statements. Users often struggle to link information presented in the cash flow statement with related disclosures in the balance sheet, income statement and notes.

Relevant information is frequently scattered across different parts of the financial statements, and the statement of cash flows itself rarely includes cross-references to supporting notes. Stakeholders therefore suggested introducing an overarching principle that would enable users to reconcile cash flow information with other financial statement elements more easily.

Such a principle would require financial statements to provide sufficient disaggregation and clarity to allow users to trace movements across the primary statements. For example, users highlighted that better connectivity, along with more qualitative commentary, would improve transparency of areas such as share-based payments, derivatives, leases, capital expenditure, foreign exchange effects and changes arising from business combinations.

Supplementary disclosures

The research revealed several supplementary disclosures that UK stakeholders believe would significantly improve the usefulness of cash flow reporting. Key among these is the need for a more comprehensive and standardised disclosure of net debt. Many users indicated that they rely heavily on net debt figures as a key performance indicator, yet current disclosures vary considerably between companies. Research participants expressed strong support for a mandatory net debt reconciliation that clearly links financing activities in the statement of cash flows to related balance sheet items, and that distinguishes cash movements from non-cash adjustments. Mandating a net debt reconciliation in the financial statements would provide greater consistency and audit assurance to users across all companies. Matthew argued that a net debt disclosure requirement would largely be an extension of existing IFRS disclosures and, therefore, should not pose a significant challenge for most companies. Moreover, introducing an IFRS definition of net debt would be valuable as it would enable companies to present a reconciliation from their entity-specific, adjusted net-debt measure to an IFRS-defined metric, thereby enhancing transparency, comparability and consistency across reporting entities. International analysis conducted by the UKEB suggests that such disclosures are already common in some jurisdictions, demonstrating both feasibility and relevance.

‘It was proposed that a single, consolidated note disclosing all material non-cash transactions would both simplify access to information and improve transparency.’

Another area where users identified a strong need for improvement is the presentation of working capital movements. Many stakeholders reported that they are unable to reconcile the working capital movements shown in the cash flow statement with the corresponding balance sheet movements. This lack of clarity arises partly because IFRS does not provide a definition of working capital. Stakeholders therefore requested entity-specific working capital reconciliations that would explain how components have changed over the reporting period, including the effects of business combinations, factoring arrangements and reverse factoring.

Exceptional or non-recurring items represent a third area in need of reform. Users emphasised that they require visibility over both the income statement and cash flow effects of exceptional items, which are often material to assessments of long-term performance. Yet the cash impact of such items is not widely reported, making it difficult for users to identify how these items have influenced underlying cash generation.

Finally, although non-cash transactions constitute an essential element of the financial narrative, the UKEB research found that information pertaining to these transactions is frequently fragmented or incomplete. Users noted that they cannot reliably reconcile non-cash movements with the primary financial statements, partly owing to scattered disclosures and insufficient information on transactions such as leases, factoring and reverse factoring arrangements, and share-based payments.

It was proposed that a single, consolidated note disclosing all material non-cash transactions would both simplify access to information and improve transparency. Such a note would also help users understand the material effects of non-cash transactions on balance sheet movements, foreign exchange translation differences and fair value changes.

Interconnectivity

A broader issue highlighted in the research relates to inconsistencies between disclosure requirements across IFRS Accounting Standards. While many standards include explicit requirements relating to the income statement and balance sheet, disclosures related to cash flow are comparatively limited.

The UKEB identified examples of observed voluntary or suggested cash-flow-related disclosures in various standards, including, among others, IFRS 16 on leases, IFRS 9 on financial instruments, IFRS 2 on share-based payments and IFRS 3 on business combinations. As Matthew mentioned, there are opportunities for strengthening the connections between IAS 7 and other standards. These include encouraging the IASB to refer to the statement of cash flows and the classification principles and disclosure objectives in IAS 7 and to ensure that principles in IAS 7 are sufficiently clear for preparers to apply the standard. By elevating IAS 7’s prominence within the wider IFRS landscape, the UKEB believes the quality and completeness of cash flow reporting would improve significantly.

2.2.4 Concluding remarks

The UKEB’s research demonstrates that cash flow information remains a central concern for users of financial statements and that current reporting practices under IAS 7 do not consistently meet their needs. Users emphasise the importance of clarity, cohesiveness and comparability, particularly in relation to non-cash movements, working capital changes, exceptional items and net debt. Preparers, by contrast, often approach the statement of cash flows with a compliance mindset rather than seeing it as a valuable financial tool, leading to a divergence in expectations and outcomes.

The findings provide a compelling case for the IASB to consider targeted improvements to IAS 7 and related standards. These improvements should aim to improve the interconnectivity between cash flow information and other financial statements, standardise high-value supplementary disclosures, and promote more consistent treatment of non-cash transactions.

2.2.5 Q&A

Pauline Weetman (University of Edinburgh) provided a comment about the importance of working capital. She referred to research she conducted that showed that working capital management is particularly important for smaller businesses, where cash flow management becomes important. From this it follows that the clearer that information can be, the more useful it is for understanding how working capital and cash interact.

2.3 IASB presentation:
Statement of cash flows and related matters

Nick Anderson was appointed as a member of the IASB in 2017 and reappointed to serve a second term in 2022. He has 30 years of practical experience, mainly as a buy-side investor using and supporting the development of high-quality financial reporting. Nick joined the IASB from Janus Henderson Investors in the UK, where he served as global equity portfolio manager and head of equity research. He was responsible for overseeing the sharing of research and best practice across Janus Henderson's equity teams and served as the firm's contact for the IASB's Investors in Financial Reporting programme. Nick was a member of the UK Accounting Standards Board from 2007 to 2013 and a founding member of the Corporate Reporting Users' Forum (CRUF). He has a degree in economics from University College, Durham, UK and is an associate of the Chartered Financial Analyst (CFA) Society United Kingdom.

2.3.1 Opening

In his presentation, Nick provided an update on the IASB's project on the statement of cash flows and related matters. He started his presentation by thanking FARSIG for inviting him to participate in the symposium. He mentioned that he was invited to speak to the symposium 10 years ago, in January 2016, about how financial reporting supports long-term investing. He briefly reflected that during that session he had spent quite a lot of time talking about net debt reconciliations, which are still a relevant topic today. Nick added the disclaimer that the views he was to express in his presentation are his personal views and not necessarily those of the IFRS Foundation, IASB or the International Sustainability Standards Board (ISSB).

2.3.2 IFRS 18 – the new requirements

Nick presented some of the requirements relevant to cash flow that are coming through with IFRS 18. First is a more consistent structure to the statement of profit and loss, including the production of an 'operating profit' subtotal. Second are disclosures about 'non-IFRS measures', which the IASB calls 'management-defined performance measures'. Third are enhanced requirements for the grouping of information, which the IASB describes as 'aggregation and disaggregation'. These requirements become effective from 1 January 2027.

Nick then further discussed the third requirement, explaining that the reason for highlighting this is that many people think about IFRS 18 as being all about the income statement. Yet, some of the enhanced requirements on grouping information apply to the entirety of the financial statements. Nick presented a slide showing that the roles and the relationship between the primary

'Nick expressed hope that as preparers go through their IFRS 18 journey, we will already see some improvements, particularly for disaggregation in the cash flow statement, perhaps for separating out exceptional items.'

statements and the notes, and the principles for aggregation and disaggregation, apply to everything in the financial statements, including the cash flow statement. Nick expressed hope that as preparers go through their IFRS 18 journey, we will already see some improvements, particularly for disaggregation in the cash flow statement, perhaps for separating out exceptional items.

Nick also spoke of specific changes to the cash flow statement introduced by IFRS 18. First is the requirement for statements that use the indirect method for reporting cash flows from operating activities to have 'operating profit or loss' as their starting point. Second is the removal of some of the choices that are available today for interest received and paid and dividends received and paid.

2.3.3 'Statement of Cash Flows and Related Matters' project

Nick went on to discuss the IASB's project on the statement of cash flows and related matters, emphasising that 'related matters' is an important element of the project. This project resulted from feedback on the IASB's Third Agenda Consultation, where it was classed as a 'top-three project' by investors. Nick commented that the project was not highly ranked by companies, which did not have incentives to request improvements to the cash flow statement, perhaps because they viewed it as a compliance exercise.

2.3.4 Topics the project will explore

Applicability for financial institutions

The IASB identified some key topics to be explored in this project through the agenda consultation and through early research, including reviewing academic literature on the topic. Nick started discussing these topics by focusing on the approach to financial institutions since, as he explained, the IASB received the feedback that cash flow information is not seen as being as important for financial institutions as it is for non-financial institutions. The IASB has heard very strong views from users that cash flow statement information is of no use to them. This is because the focus for banks is on capital and for insurers on solvency. These are the things that matter for these businesses to continue to exist, rather than cash flow per se. The IASB wanted to signal to financial institutions that it appreciates these dynamics. The approach taken is to work through the other elements of the project and then return to the issues with financial institutions. The IASB would like to consider whether there are different disclosures that would be appropriate to financial institutions, whether there are other supplementary disclosures, and whether there are parts of the cash flow statement that are most relevant to financial institutions. The IASB will consider whether financial institutions should possibly be exempted from any of the revised requirements.

Disaggregation

Nick then discussed the issue of disaggregation. In addition to the requirements in IFRS 18, the IASB is focusing on some specific areas. These include how companies provide information about discontinued operations. Although companies comply with the current requirements, there is flexibility in presentation and disclosure. The IASB has heard from users that they would like to see less diversity in the information provided. There are opportunities to build up better linkages between the primary financial statements and the notes. These relate, for example, to changes in working capital.

As Matthew discussed in his presentation, the IASB knows that users would like to see better cash flow information, particularly splitting out the non-cash changes in working capital from other changes in working capital. The Board will look at specific requirements for particular line items. Although users have requested that growth and maintenance capital expenditure is split, the Board has decided not to pursue this as it is challenging and it is questionable whether it is really an issue for financial reporting or an issue for financial analysis.

Non-IFRS cash flow measures

The next area concerns the transparency of information about cash flow measures not specified under IFRS standards, ie non-IFRS measures of cash flow. For this, the Board has reached some tentative decisions, ie to expand the requirements in IFRS 18 to subtotals of cash inflows and cash outflows. The Board is also considering disclosure requirements similar to those in IFRS 18, excluding the tax and non-controlling interest effect of the adjusting items to go from an IFRS measure to a non-IFRS measure. This is because the Board has not received any feedback about the relevance of such disclosures for cash flow measures. Nick expressed some satisfaction that the Board was leveraging and amending the requirements in IFRS 18 to extend them to cash flow measures.

Non-cash transactions

The requirements on information about non-cash transactions are a critical issue as highlighted by users, accountancy bodies and accountancy firms. Nick provided an example of a non-cash transaction through a business combination.

Company A acquires two other companies, B and C, and those companies are identical in all aspects apart from their financing structure – see the Table 2 below. Company B has no debt or cash. Company A pays CU100 million for that company, and this is what goes through the cash flow statement. Company C, which is identical in all aspects to Company B other than its financing structure, has CU40 million of debt. Because Company A will have to consolidate that debt once it completes the acquisition, it is only going to pay CU60 million for Company C. Therefore, what you see going through the cash flow statement is CU60 million. Yet, the economic cost of the acquisition is actually CU100 million. Investors regard these two transactions as economically equivalent.

Table 2: Acquisitions by Company A

CU MILLION (CU = CURRENCY UNITS)	COMPANY B	COMPANY C
Cash flow statement Investing cash outflow – acquisitions	(100)	(60)
Acquired debt		(40)
Economic effect of acquisition	(100)	(100)

Other examples that the Board is considering include reverse factoring, inception of leases, stock options, purchase of assets for non-cash considerations and payments in kind for dividends. Nick commented that non-cash transactions have become more prevalent over time. When he started his career, the mantra was 'cash is king'. Following the cash flows enabled one to understand the economics of the business. Yet, this is not true today because of non-cash transactions.

The Board made an amendment to its IAS 7 requirements, in 2016, to require a reconciliation of liabilities from financing activities. Effectively, this is a debt reconciliation as it requires companies to provide the information to allow users to evaluate changes in liabilities from financing activities, including both cash and non-cash transactions. It does not require a formal tabular reconciliation as the Board considered it would be onerous for preparers. Although there was poor compliance with the requirements in the form of insufficient disaggregation at the start, this has improved over time. Thus, a debt reconciliation is provided alongside the cash flow statement, which acts as a cash reconciliation.

Linking to the UKEB presentation on the request of UK stakeholders for a mandatory net debt reconciliation, Nick provided some personal reflections before explaining why the IASB is currently not planning to introduce this.

Nick first asked: *'But why is a net debt reconciliation important?'* He explained that this takes him back to how he learned about accounting in the early 1990s, when he was taught about the importance of cash flows by someone who had done leveraged buyouts at Chemical Bank. In a pre-Excel era, they had to work through companies' 10-year history to pick up data items from their financial statements to work through a net debt reconciliation. *Why debt?* Because debt and movements in debt are regarded as being of substance by investors and as economically equivalent to transactions reflected in the cash flow statement. *Why net?* Because you want to see both cash and debt together. *And why reconciliation?* An important part of the reconciliation is that this information is scattered through the financial statements. There is, therefore, a discipline to the reconciliation of trying to capture all those items. If net debt is not reconciled, it means that something is missing and further research is needed.

Nick then discussed the current requirements in IAS 7. The Board acknowledges that there are investing and financing activities that do not have a direct impact on cash flows. Although they affect the capital and asset structure of companies, they are prohibited from being included in the cash flow statement, since they do not affect current cash flows. This creates the need for these to be disclosed elsewhere in the financial statements in a way that provides all the relevant information. Nick commented that he believes that poor compliance with these requirements by many companies creates this 'scattering', which poses challenges for users.

In 2023, Paul Munter, then the chief accountant of the US Securities and Exchange Commission (SEC), issued a statement about the importance of cash flow reporting in which he advocated a direct cash flow statement. He raised three things of particular importance to investors: non-cash transactions, how transactions are classified, and better linkages between the statement of cash flows and the other elements of the financial statements, particularly the balance sheet. Nick commented that a critical element of the IASB project is to draw these three things together. The aim is to bring some transparency to the information about non-cash transactions that is currently scattered in the financial statements, in a way that is easily understood and is usable for investors. Although a net debt reconciliation would help with the linkage, it would not necessarily capture all non-cash transactions, such as where there has been an acquisition that is being financed directly by the purchaser issuing equity to the vendor.

'The aim is to bring some transparency to the information about non-cash transactions that is currently scattered in the financial statements, in a way that is easily understood and is usable for investors. Although a net debt reconciliation would help with the linkage, it would not necessarily capture all non-cash transactions.'

Consistent application

The Board has identified a number of areas where the wording in IAS 7 can be improved to ensure there is better, and more consistent, application of the requirements to classify cash flows as operating, investing or financing. These include business combinations, deferred consideration, government grants, derivatives, reverse factoring and leasing. Some of these issues relate to non-cash transactions, and hence solutions for non-cash transactions may deal with these. The Board is also considering how much some of these matters make a difference to users.

Furthermore, the Board is planning to look into issues regarding the consistent application of the definition of cash equivalents, but it is not proposing to change the definition. The aim is to ensure the wording is clear, so that there is better compliance.

2.3.5 Concluding remarks

Nick finished his presentation by commenting on the compliance mentality about the cash flow statement. He explained that companies do not necessarily spend time on this because it is not economic for them. As they do not use this reporting in managing their business, it becomes a compliance exercise. The cash flow statement is not economic for users either, as it does not pick up the non-cash transactions that they regard as economically equivalent. The Board is therefore working towards bringing these two things together to make the statement more economic for users and for preparers. Nick commented that the Board needs to preserve the information about the cash flows, but as Matthew highlighted earlier, much of the information that is required today needs to be reorganised, made more transparent and provided in a more user-friendly manner. Nick finished off by saying he feels excited that this is now being addressed.

2.3.6 Q&A

Following the presentation, Srivatsan Lakshminarayan (Brunel University of London) asked: Considering that the Financial Accounting Standards Board (FASB) has a current targeted improvements project which looks to address some of the issues specific to financial institutions, has anything specific been identified or is likely to arise in the course of the remainder of the IASB's project?

Nick responded that the FASB's project has been narrowed to focus more on financial institutions. It has been looking particularly at issues concerning cash interest paid and cash interest received. One of the things which the IASB could consider is whether there are elements of the cash flow statement that are particularly important for financial institutions. Those two metrics could be important, as well as the financing section as that is about raising capital and payments of dividends.

'Nick commented that the Board needs to preserve the information about the cash flows, but as Matthew highlighted earlier, much of the information that is required today needs to be reorganised, made more transparent and provided in a more user-friendly manner.'

2.4 Practitioner presentation: Challenges and opportunities for integrating ESG factors – an investor's perspective

Nikhil Chouguley is a fellow certified chartered accountant. He is an equity partner at Sustopia Capital and is also part of the leadership team of the UN Principles of Responsible Investment. He has a banking background, having served as the global chief operating officer for sustainable investing at Citibank.

2.4.1 Overview

In his presentation, Nikhil reflected on the evolving relationship between ESG factors and financial decision-making. His central argument was that ESG considerations are increasingly embedded in regulatory frameworks and corporate reporting. Despite this growing importance, however, these considerations are still not fully integrated into the core mechanisms through which financial markets evaluate companies, particularly cash flow statements and valuation models. ESG, although considered a force for good, is not being captured in the premiums of the equity valuation or in the reduction in the cost of capital for a company.

Nikhil's presentation can be split into the following parts: corporate sustainability regulations; ESG screening and investment selection; a private equity case study involving a micro-hydropower project; and a suggestion and concluding remarks.

2.4.2 The impact of regulation

Nikhil started by describing the importance of corporate non-financial reporting regulations. Globally, regulations have shaped how financial services practitioners (eg fund managers) think about ESG factors and how these factors ought to be valued and considered as part of risk modelling and portfolio allocation.

In the European Union (EU), one of the most significant developments in this area is the Corporate Sustainability Reporting Directive (CSRD) from 2022. Under this Directive, thousands of companies operating in the EU are required to report on the sustainability impacts, risks and opportunities associated with their activities. Initially, the scope of the Directive was expected to include roughly 50,000 companies, being both European companies and foreign companies with substantial operations in the region. In fact, this number has been reduced to approximately 8,000–10,000 companies following implementation of the so-called 'Omnibus' Directive from 2026. These companies are required to disclose information about the sustainability-related risks they face. For example, companies must evaluate whether their operations are exposed to climate-related risks such as floods, hurricanes, forest fires or droughts. They must also report how their activities affect environmental and social factors, both positively and negatively.

Nikhil noted that sustainability reporting does not focus exclusively on risks. Companies are also expected to identify opportunities arising from the global transition towards more sustainable economic systems. For instance, some companies may benefit from the decarbonisation of supply chains, the electrification of transport systems or the falling cost of renewable energy.

In addition to CSRD, the EU has introduced the EU Taxonomy Framework, which aims to classify economic activities according to their environmental sustainability. Together, these regulatory frameworks attempt to standardise how companies measure and disclose sustainability-related metrics. Nikhil said that these developments represent an important step toward improving transparency and comparability in sustainability reporting. But they also highlight a broader challenge: although sustainability metrics are being reported more consistently, they are not yet fully integrated into financial accounting systems.

2.4.3 ESG screening and investment selection

Nikhil then explained how ESG considerations are incorporated into the investment process at a high level. In his view, the focus is not merely on how ESG factors affect a company, but also on how the company itself affects the broader economy, the environment, society and nature. In this framework, the central question becomes whether a company contributes positively to ESG objectives while avoiding material harm. Companies are therefore evaluated on whether their operations make positive contributions to ESG factors, whether they avoid significant negative impacts on the environment or society, and whether they refrain from participating in certain controversial activities.

For example, a company might be assessed on whether its operations contribute positively to environmental sustainability or generate significant pollution. Activities such as mining may be examined for their impact on ecosystems and natural resources. Additionally, companies are screened to ensure they are not involved in particularly controversial industries or practices, such as the production of nuclear weapons. Only companies that pass

these screens are eligible for inclusion in ESG-focused investment portfolios. Eligible companies are then evaluated on their financial performance before being added to a fund.

In practice, this means that ESG considerations are part of the investment selection process but do not replace traditional financial analysis. Instead, they operate alongside it as an additional layer of evaluation.

Nikhil then turned to the role of financial institutions, including banks, asset managers and investment funds. These organisations are increasingly required to assess climate-related risks within their portfolios. Historically, one of the most influential frameworks in this area was the Task Force on Climate-Related Financial Disclosures (TCFD, disbanded 2023). More recently, sustainability reporting standards developed by the ISSB have begun to replace earlier initiatives. In the EU, the Sustainable Finance Disclosure Regulation (SFDR) also requires financial institutions to disclose how sustainability factors influence investment decisions.

Another important initiative is the Network for Greening the Financial System (NGFS), which has developed climate scenario models used by banks and regulators to assess long-term climate risks.

Nikhil then explained that financial institutions apply these frameworks by conducting scenario analyses. For example, analysts may evaluate how climate risks, such as flooding, hurricanes and long-term temperature changes, could affect a company's operations, supply chains and financial performance. In his experience working in financial services, such analyses might involve running climate-risk scenarios to estimate how environmental factors could affect a company's future cash flows. These projections are aggregated into risk scores that inform investment decisions. One tool used for this purpose is Climate Value-at-Risk analysis, which estimates how climate-related risks could affect corporate valuations.

Nonetheless, Nikhil stressed that climate risks represent only one dimension of the broader ESG landscape. Companies may also face risks related to biodiversity loss, pollution, technological disruption or social instability. Despite the growing sophistication of scenario analysis frameworks, many of these risks remain difficult to quantify within traditional financial models.

Nevertheless, many organisations in Europe, the United Kingdom and Asia are already using scenario analysis to evaluate physical climate risks. By modelling potential flood events, drought conditions or supply chain disruptions, analysts can estimate how environmental changes might affect a company's operations and profitability.

The resulting risk scores are often incorporated into portfolio construction processes, but ESG factors are not really captured in cash flow statements.

Nikhil next provided a more detailed explanation of how ESG considerations are integrated into public equity portfolio construction. The first step in this process is fundamental analysis. ESG factors, he emphasised, do not replace traditional financial analysis; instead, they form a subset of it. Equity analysts still evaluate macroeconomic conditions, industry trends, competitive environments and company financial statements. They build financial models, forecast future cash flows and conduct scenario analyses.

'By modelling potential flood events, drought conditions or supply chain disruptions, analysts can estimate how environmental changes might affect a company's operations and profitability. The resulting risk scores are often incorporated into portfolio construction processes, but ESG factors are not really captured in cash flow statements.'

Increasingly, however, scenario analyses now include climate-related risks. Analysts examine how environmental events or regulatory changes could affect a company's long-term performance.

From an ESG perspective, analysts also identify negative externalities associated with corporate activities. If a company's environmental or social performance appears problematic (for example, if its pollution levels are excessive or its workforce diversity metrics are weak) investors may engage directly with the company. This engagement is part of the so-called 'active ownership'. Investors may communicate with company management to encourage improvements in sustainability performance. They may also use their proxy voting rights to support or oppose shareholder resolutions related to climate policies, governance structures or other ESG issues.

Ultimately, the results of both financial analysis and ESG evaluation feed into investment decisions. Analysts assign both financial and ESG risk scores, as well as thematic alignment scores that reflect how well a company aligns with sustainability objectives.

These scores are combined with traditional valuation models to determine whether a company should be included in a portfolio and, if so, at what weight. Investment managers also consider factors such as sector allocation, geographic diversification and overall portfolio strategy.

Despite this growing integration, Nikhil highlighted an important limitation: ESG metrics are typically measured using indicators such as greenhouse gas emissions, water pollution levels or gender diversity ratios. While these metrics are informative, they are not directly translated into financial figures. As a result, ESG performance often influences investment decisions indirectly rather than through explicit changes in projected cash flows.

2.4.4 A private equity case study: micro-hydropower infrastructure

To illustrate these challenges further, Nikhil presented a case study involving a private equity investment in a micro-hydropower project. Across Europe, there are approximately 10,000 such projects. Micro-hydropower involves generating electricity from the natural flow of rivers without constructing large dams. Instead of creating reservoirs that flood valleys and disrupt ecosystems, turbines are installed directly in the river's flow.

Because these projects avoid many of the environmental and social impacts associated with traditional hydroelectric dams, they are considered more sustainable. In fact, micro-hydropower aligns with the EU Taxonomy Framework, which identifies environmentally sustainable economic activities.

Another advantage is that hydropower can provide baseload energy. Unlike solar and wind power, which produce electricity intermittently depending on weather conditions, hydropower can operate continuously. This makes it particularly valuable for maintaining a stable electricity supply.

In evaluating such an investment, analysts also examine climate-related risks. Satellite data and climate models, such as those developed under the EU Copernicus programme, are used to analyse river flows, drought risks, flood probabilities and seasonal variations in water availability.

'ESG performance often influences investment decisions indirectly rather than through explicit changes in projected cash flows.'

All these factors contribute to a comprehensive sustainability analysis. Nonetheless, Nikhil explained, the ultimate investment decision is still based on a single metric: the internal rate of return (IRR). The IRR calculation is derived from projected cash inflows and outflows. Revenue projections depend on the volume of water flowing through the turbines and the price at which electricity can be sold. Analysts also consider whether the project benefits from government concessions or feed-in tariffs. On the cost side, they estimate the expenses associated with constructing and operating the facility.

Once these projections are completed, the IRR is presented to the investment committee. The committee then decides whether to include the project in the renewable energy investment fund. Nikhil said that this process reveals a critical disconnection. The project delivers multiple sustainability benefits: it produces renewable energy, supports energy security and contributes to the decarbonisation of European industry. Nevertheless, these benefits are not reflected in the project's financial valuation. In other words, despite its environmental and strategic value, the investment receives no 'green premium'. The valuation remains based solely on discounted cash flow calculations.

2.4.5 A suggestion and concluding remarks

The central message of Nikhil's presentation is that ESG factors, although widely discussed and increasingly measured, are not fully incorporated into financial accounting frameworks. Many sustainability metrics appear in corporate disclosures, sustainability reports and regulatory filings. Even so, they rarely influence the core financial statements that investors rely on when evaluating companies.

For example, companies may report their carbon emissions, water use or workforce diversity statistics, but these metrics are typically presented separately from operating, investing and financing cash flows. Nikhil argued that this separation represents a missing piece of the puzzle. ESG factors clearly influence corporate performance. Climate events such as floods or droughts can disrupt operations, damage infrastructure and reduce revenue. Supply chains may be affected by environmental degradation or social instability. Despite these real economic effects, the financial impact of ESG factors is rarely quantified within cash flow statements.

Toward the end of his presentation, Nikhil raised several questions about how financial reporting might evolve to address these challenges. One possibility, he argued, is to reconsider the scope of existing accounting standards. For example, the International Accounting Standard governing cash flow statements, IAS 7, might eventually be expanded to incorporate ESG-related disclosures.

Currently, sustainability reporting frameworks such as CSRD, the EU Taxonomy and ISSB standards largely operate alongside traditional financial reporting. While these initiatives improve transparency, they remain disconnected from the financial metrics that drive valuation models.

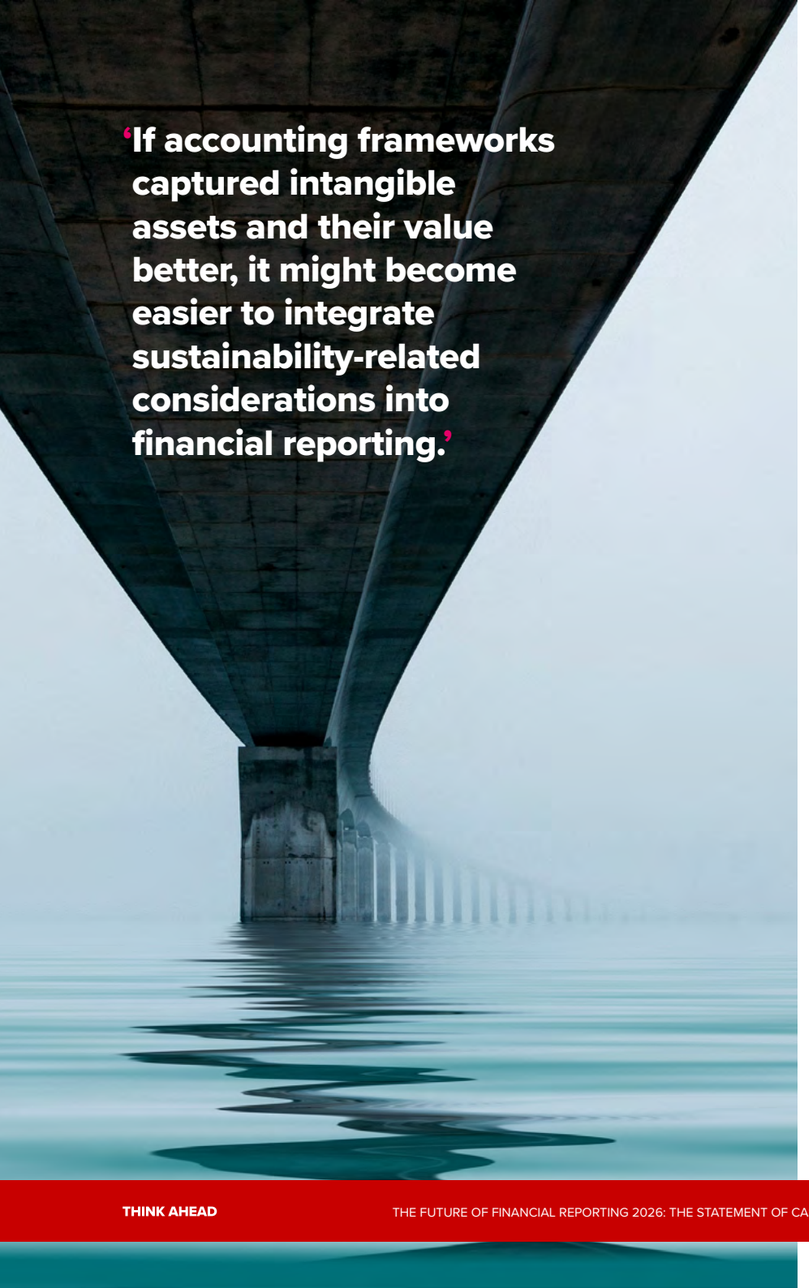
Furthermore, some frameworks focus primarily on financial materiality. For instance, certain standards emphasise how climate risks affect companies, rather than how companies themselves affect the environment or society. Nikhil noted that this approach reflects a single-materiality perspective. In contrast, European regulatory frameworks often adopt a double-materiality approach, which considers both the impact of sustainability factors on companies and the impact of companies on the environment and society. Nikhil argued that a double-materiality approach is important for understanding the full range of ESG-related impacts, risks and opportunities.

Nikhil concluded by arguing that more consistent valuation models are needed to incorporate ESG factors into financial analysis.

The global economy is undergoing a profound industrial transition across sectors such as energy, transportation, manufacturing and agriculture. Achieving this transformation will require enormous investments in new infrastructure, technologies and supply chains. If financial statements and valuation models fail to capture ESG-related risks and opportunities, capital allocation may not fully support this transition.

For example, renewable energy projects that provide long-term environmental benefits may not receive higher valuations if those benefits are not reflected in financial metrics. Similarly, companies exposed to climate risks may appear financially stable until those risks materialise.

Nikhil suggested that integrating ESG considerations more directly into financial reporting could help address this problem. If ESG-related impacts, risks and opportunities were reflected more directly in financial statements, particularly in cash flow statements, investors would be better equipped to evaluate long-term corporate performance. Such improvements could also enhance equity valuation models, allowing analysts to move beyond theoretical scenario analyses and incorporate real financial data.



'If accounting frameworks captured intangible assets and their value better, it might become easier to integrate sustainability-related considerations into financial reporting.'

2.5 Panel discussion

Following the individual presentations on the role and evolution of the cash flow statement, the symposium concluded with a panel discussion moderated by Christian Stadler (Royal Holloway, University of London). The discussion focused on several issues raised by the speakers, particularly the relationship between cash flow statements and sustainability reporting, the future direction of academic research in this area and the implications for accounting standard-setting.

2.5.1 ESG reporting and financial reporting

Doaa Aljamal (University of Northampton) opened the discussion by commenting on the relationship between ESG reporting and financial statements. Referring to the earlier presentation by Nikhil Chouguley, she addressed the idea of aligning sustainability considerations more closely with cash flow statements.

She noted that the issue of aligning ESG reporting with financial statements has been raised in numerous academic and professional discussions. In her view, the challenge might ultimately be addressed through stronger integration within the broader integrated reporting framework. She suggested that one important starting point could be the reporting of intangible assets. If accounting frameworks captured intangible assets and their value better, it might become easier to integrate sustainability-related considerations into financial reporting. Such developments would allow ESG-related information to be reflected more directly within financial statements rather than appearing only in notes or sustainability disclosures.

Doaa emphasised that this remains a large, active project within the accounting community. She noted that discussions around these issues have already begun within professional and regulatory platforms and that the development of improved reporting approaches is still under way.

Nikhil replied by agreeing with the argument's general direction. He then provided a practical example from financial markets to illustrate the challenges associated with ESG data interpretation. He said that numerous data providers, such as MSCI, Bloomberg and other financial analytics firms currently analyse corporate financial and non-financial reports to produce ESG risk scores.

In his view, these scores are often generated by analysts who are not accounting specialists and who interpret corporate disclosures to estimate how companies are affected by climate risks and other ESG factors. While this process provides useful information for investors, Nikhil questioned whether these external analysts are the most appropriate actors to quantify ESG-related financial risks.

Instead, he argued that the chief financial officers and financial teams within companies are in a much better position to explain the financial implications of sustainability-related factors. Corporate finance teams have direct access to operational data. They can therefore more accurately assess how issues such as climate events, regulatory changes or technological transitions influence revenue and cash flows.

For example, companies are best positioned to explain fluctuations in revenue or cash flows resulting from climate-related events such as flooding, or regulatory developments such as Carbon Border

Adjustment Mechanisms (CBAMs). Nikhil argued that this internal expertise should play a greater role in the production of ESG-related financial information.

Nikhil hence emphasised that the current system relies too heavily on third-party interpretations of sustainability data. Arguably, this creates both data accuracy issues and coverage gaps. For instance, he noted that during his time at Citibank, he was responsible for analysing an investment universe of approximately 1,000 securities. Of these, only about 40% were covered by ESG data providers. The remaining 60%, often located in emerging markets or represented by debt instruments, had little or no ESG coverage.

This lack of consistent data highlights the limitations of relying on external ESG scoring providers. Nikhil, therefore, argued that accounting standards, particularly those relating to cash flow statements, should evolve to include more structured disclosures of ESG-related financial impacts. If corporate finance teams were required to explain how ESG factors affect operating, financing and investing cash flows, investors would receive more accurate and reliable information.

Doaa then argued that a more fundamental, conceptually grounded approach may be necessary. In her view, simply increasing the amount of sustainability disclosure is not sufficient. Instead, accounting frameworks must establish clearer conceptual guidelines for quantifying ESG risks and opportunities. She also pointed out that sustainability impacts vary significantly across industries and companies. Therefore, any attempt to integrate ESG into financial statements must account for sector-specific differences. The core challenge, she concluded, lies in developing a robust conceptual framework capable of quantifying these impacts.

2.5.2 Future research

Then, the moderator, Christian Stadler, transitioned the discussion to future research directions related to cash flow statements. Christian first addressed a question to Zhan Gao, whose earlier presentation had focused on a literature review of cash flow statement research. Christian asked about opportunities for future academic research on cash flow reporting and related financial measures.

Zhan responded that although the academic literature on cash flow statements includes several well-developed topics, such as the long-standing debate about the direct and indirect methods, many important areas remain underdeveloped. In his literature review, he identified several exciting topics that deserve further investigation. One such area concerns alternative measures of cash flows and how they might provide additional insights into corporate financial performance.

Another under-researched topic concerns the cash flow statements of financial institutions. Banks, insurance companies and other financial entities operate under different financial structures from non-financial corporations, so existing accounting frameworks may not fully capture the unique characteristics of their cash flows.

Zhan also emphasised the potential importance of examining the relationship between earnings and cash flows. While this topic has a long history in accounting research, the availability of long-term datasets now allows researchers to conduct historical analyses examining how the relative importance of these measures has evolved.

‘Advances in machine learning and large language models enable the analysis of narrative disclosures alongside quantitative financial data. Researchers could therefore examine how textual information relates to earnings and cash flow measures, and how investors use this information in decision-making and valuation processes.’

Furthermore, he highlighted the growing role of textual information in financial reporting research. Advances in machine learning and large language models enable the analysis of narrative disclosures alongside quantitative financial data. Researchers could therefore examine how textual information relates to earnings and cash flow measures, and how investors use this information in decision-making and valuation processes.

Christian then asked Matthew Tilling what future research he would like to see from academics, particularly in light of the research conducted by the UKEB.

Matthew explained that many of the issues raised during the discussion are directly relevant to the work of accounting standard-setters. One immediate area of focus concerns financial institutions. Matthew said that accounting standard-setters, particularly the IASB, are planning to examine the cash flow statements of financial institutions in greater detail in the near future.

He noted that this area is surprisingly complex. Financial institutions encompass a wide range of entities, including banks, insurance companies and other financial intermediaries. These organisations

all have different business models and financial structures. In addition, many financial institutions engage in diversified activities that extend beyond traditional banking or insurance services. These complexities make it difficult to determine how cash flow statements should be structured for such entities.

To address these challenges, Matthew explained that the UKEB is interested in research that helps to understand what types of cash flow information investors actually find useful. One approach involves examining the information that financial institutions already disclose to investors outside their formal financial statements. If certain financial metrics appear frequently in these disclosures, they may indicate areas where existing accounting standards could be improved.

Matthew also encouraged academics to share relevant research findings with standard-setting bodies, emphasising that such collaboration can play an important role in shaping accounting standards.

Christian then asked Nick Anderson what types of academic research would be particularly useful for the work of the IASB.

Nick explained that the IASB is currently focusing on several key challenges related to cash flow reporting. One important issue involves defining what constitutes a financial institution. Determining how narrowly or broadly this category should be defined is a crucial step in developing accounting guidance. Another issue concerns the value relevance of different components of the cash flow statement for financial institutions. It is possible that only certain parts of the statement are particularly useful for investors analysing these organisations.

Nick also mentioned the challenge of conglomerates: companies that combine financial services operations with other types of business activities. For investors evaluating such companies, it may be important to understand how cash flows are generated across different segments of the organisation.

Nick also highlighted the importance of research on non-cash disclosures. Comparative studies examining differences between disclosure practices under US GAAP and IFRS have already proved valuable in informing standard-setting discussions.

‘One approach involves examining the information that financial institutions already disclose to investors outside their formal financial statements. If certain financial metrics appear frequently in these disclosures, they may indicate areas where existing accounting standards could be improved.’

Christian finally asked Nikhil Chouguley what types of academic research would be most useful for practitioners working in finance and investment.

Nikhil reiterated that ESG remains a very broad and evolving topic. From a practitioner's perspective, he sees a significant gap between sustainability analysis and the financial modelling of cash flows. In particular, he emphasised the need for research examining how climate scenario analyses affect corporate cash flows. For example, companies may face different financial outcomes depending on whether global warming follows a 1.5-degree scenario or a higher temperature pathway. If companies and their financial leaders could clearly quantify the financial implications of such scenarios, they would be more able to assess the risks associated with climate change and other sustainability issues.

Nikhil argued that once corporate executives understand the financial impact of ESG-related risks on profit margins and cash flows, they will be more likely to take proactive measures. These measures might include decarbonising supply chains, investing in new technologies or developing alternative products and services.

For this reason, he expressed particular interest in academic research that integrates scenario analysis with financial reporting. Such research could examine how climate, environmental, commodity and social factors influence cash flows and how these effects might be disclosed in financial statements or in notes accompanying cash flow statements.

2.5.3 IASB and standard-setting

In the final part of the discussion, Christian invited the panellists to share concluding comments about the work of the IASB.

Nikhil emphasised the importance of global consistency in sustainability reporting. From the perspective of practitioners, the current landscape is fragmented, with different jurisdictions developing their own definitions and frameworks for sustainability. He explained that much of the capital available for sustainable investment currently originates in Europe but is deployed globally, including in regions such as South America, Africa and Asia. The existence of multiple sustainability taxonomies and reporting standards creates confusion and inefficiencies for investors operating across these markets.

Nikhil therefore recommended the development of globally consistent reporting standards under IFRS that capture the impacts, risks and opportunities associated with sustainability factors. While acknowledging the work of the ISSB, he suggested that existing frameworks remain too theoretical and insufficiently focused on the financial impacts of sustainability issues. He argued that investors need clearer information about the monetary consequences of ESG-related risks and opportunities.

'Nikhil therefore recommended the development of globally consistent reporting standards under IFRS that capture the impacts, risks and opportunities associated with sustainability factors.'

Matthew encouraged continued engagement between academics, practitioners and accounting standard-setters. He noted that organisations such as the IASB and the UKEB actively seek feedback from stakeholders and are open to discussions about potential improvements to accounting standards. Matthew said that collaboration between researchers and practitioners is essential for advancing the development of financial reporting frameworks.

Zhan concluded by reflecting on his own experience working with accounting standard-setters. He described this collaboration as a valuable opportunity for academics to contribute to real-world policy discussions. He encouraged other researchers to engage with standard-setting bodies and to pursue research that can have practical impacts on accounting practice.

2.5.4 Summing up

Overall, the panel discussion highlighted several important themes emerging from the symposium. There is growing recognition that ESG factors and sustainability considerations are becoming increasingly relevant for financial analysis and corporate reporting. Despite these developments, many aspects of sustainability reporting remain disconnected from traditional financial statements, particularly cash flow reporting.

Importantly, the discussion emphasised the important role that academic research can play in addressing these challenges. By examining topics such as the cash flow reporting of financial institutions, the integration of ESG scenario analysis into financial reporting and the value relevance of cash flow information, researchers can contribute to the evolution of accounting standards and financial reporting practices.

3. Discussion and conclusion

With support from ACCA, FARSIG organised its 2026 symposium on 'The Future of Financial Reporting', which was held virtually on 9 January 2026. The event discussed the statement of cash flows and its evolving role within financial reporting, and the integration of ESG considerations into financial reporting.

According to the World Economic Forum's *Global Risks Report 2026* (WEF 2026), environmental and technological risks continue to dominate the longer-term outlook, and the question of how financial reporting can adequately capture these evolving dynamics remains central to the accountancy profession.

The symposium provided a timely and substantive examination of cash flow reporting, analysing it at the intersection of standard-setting, academic research and investment practice. The speakers' presentations and the panel discussion focused on the following key themes: the empirical evidence of the usefulness and limitations of the statement of cash flows; the findings from the UKEB's stakeholder research on cash flow reporting; the IASB's current project on the statement of cash flows and related matters; the challenges of integrating ESG factors into financial analysis and cash flow statements; and the future direction of academic research in these areas.

The symposium highlighted that the statement of cash flows remains a critically important financial statement, particularly for non-financial institutions. A body of academic research, reviewed during the event by Zhan Gao, converges on the finding that cash flow information is useful: it is associated with stock prices and returns, possesses predictive power with respect to future cash flows and earnings and helps lenders assess financial distress. Empirical evidence strongly favours the direct method of reporting, ie presenting individual cash receipts and payments from operating activities, over the indirect method, which begins with profit or loss and reconciles it through accrual adjustments. Yet, as the symposium made clear, the combination of both methods exceeds the contribution of either one alone, because the indirect method captures the accrual components of accounting that the direct method does not.

The research reviewed underscored the persistent challenge of managerial discretion in cash flow classification. Firms have been shown to classify cash flows opportunistically, particularly operating cash flows, in response to capital market pressures. This finding carries enduring significance: whenever accounting standards leave room for classification choices, firms may exercise that discretion in ways that present an overly favourable picture of their financial position. The introduction of IFRS 18 *Presentation and Disclosure in Financial Statements*, effective from 1 January 2027, curtails some of this discretion, including the removal of certain choices for interest and dividend classification. Nonetheless, the key insight from the empirical literature persists as a cautionary note for standard setters.

The UKEB's research findings, presented by Matthew Tilling, reinforced the message that current reporting practices under IAS 7 do not consistently meet user needs. UK stakeholders identified several areas requiring improvement: the cohesiveness between the cash flow statement and other primary financial statements; supplementary disclosures on net debt, working capital movements and exceptional items; and the fragmented nature of non-cash transaction disclosures. The proposal for a mandatory, standardised net debt reconciliation, linking financing activities in the cash flow statement to related balance sheet items, attracted particularly strong support. Users emphasised that they rely heavily on net debt as a key performance indicator, yet current disclosures vary considerably between companies, undermining comparability, a foundational quality of useful financial information.

'The proposal for a mandatory, standardised net debt reconciliation, linking financing activities in the cash flow statement to related balance sheet items, attracted particularly strong support.'

Nick Anderson from the IASB confirmed in his presentation that the statement of cash flows project is a priority, classified as a 'top-three project' by investors during the Board's Third Agenda Consultation. Notably, cash flow information is regarded as less important for financial institutions, such as banks and insurers, where capital adequacy and solvency ratios take precedence over cash flow measures. The IASB acknowledged these dynamics and signalled its intention to consider whether financial institutions should be subject to different disclosure requirements or possibly exempted from certain revised requirements. This differentiated approach recognises that a one-size-fits-all standard may not serve all sectors equally well. Future academic research examining the value relevance of specific cash flow components for financial institutions and of the information that financial institutions already disclose outside their formal financial statements would be particularly useful in informing these deliberations.

The symposium broke new ground by explicitly connecting ESG considerations with cash flow reporting in Nikhil Chouguley's presentation. Despite the growing sophistication of sustainability reporting frameworks, including the CSRD, the EU Taxonomy and the standards issued by the ISSB, the evidence presented demonstrated that ESG factors remain largely disconnected from the core financial statements that drive valuation models. Sustainability metrics such as carbon emissions or water use are typically reported alongside, rather than within, cash flow information. The symposium heard a compelling argument that this separation represents a significant gap. Climate events can disrupt operations, damage infrastructure and reduce revenue, yet their financial impact is rarely quantified within cash flow statements.

The OECD's *Global Corporate Sustainability Report* (OECD 2025) found that while 91% of listed companies by market capitalisation disclosed sustainability-related information in 2024, the integration of such information into core financial statements remains limited. If the financial consequences of ESG-related risks and opportunities were reflected more directly in financial reporting, investors would be better equipped to evaluate long-term corporate performance, and capital allocation could more effectively support the global transition to sustainable economic systems.

'If the financial consequences of ESG-related risks and opportunities were reflected more directly in financial reporting, investors would be better equipped to evaluate long-term corporate performance, and capital allocation could more effectively support the global transition to sustainable economic systems.'

For the accountancy profession, the implications of the symposium's discussions are far-reaching. First, the call for improved linkage between financial statements, making explicit the links between cash flows, the income statement and the balance sheet, implies a rethinking of how financial information is structured and presented. The normative proposals reviewed during the symposium, including the three-dimensional statement of cash flows, represent ambitious attempts to address these structural limitations. Second, the growing demand from investors for greater disaggregation, transparency of non-cash transactions and standardised supplementary disclosures signals that preparers will need to move beyond a compliance mindset and treat the cash flow statement as a valuable communication tool in its own right. Third, the integration of ESG considerations into financial reporting, while still in its early stages, is likely to accelerate. As the panel discussion emphasised, corporate finance teams, rather than external ESG data providers, are best positioned to explain how sustainability factors affect operating, financing and investing cash flows. Accounting standards, particularly those relating to cash flow statements, may therefore need to evolve to include more structured disclosures of ESG-related financial impacts.

The symposium has also stressed the important role that academic research can play in advancing these developments. By examining topics such as alternative measures of cash flows, the evolving relationship between earnings and cash flows over time, narrative disclosures, and the integration of climate scenario analysis into financial reporting, researchers can contribute directly to the evolution of accounting standards. The collaboration between academics, practitioners and standard-setting bodies, exemplified by the FARSIG symposium itself, remains essential for ensuring that financial reporting frameworks keep pace with the information needs of an increasingly complex and interconnected global economy.

'By examining topics such as alternative measures of cash flows, the evolving relationship between earnings and cash flows over time, narrative disclosures, and the integration of climate scenario analysis into financial reporting, researchers can contribute directly to the evolution of accounting standards.'

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