

**Board Meeting Handout**  
**Statement of Cash Flows**  
**June 29, 2022**

**Meeting Purpose**

1. The purpose of the June 29, 2022 Board meeting is for the Board to decide whether to add a project to its technical agenda to improve the relevance of the statement of cash flows and related disclosures. If the Board decides to add a project to its technical agenda at this meeting, the staff will ask the Board to provide feedback on the project's objective, scope, and next steps. The staff will not ask the Board to decide on financial reporting alternatives at this meeting.

**Questions for the Board**

1. Does the Board want to add a project to its technical agenda on the cash flow statement?
2. Should the proposed project's objective be to make targeted improvements to the statement of cash flows and related disclosures to provide investors and other allocators of capital with additional decision-useful information?
3. Should the project's scope include disaggregation of certain indirect cash flow statement information, supplementary direct cash flows disclosures, and direct method Codification improvements?

**Issue Background**

**Agenda Consultation Feedback**

2. In June 2021, the Board issued an Invitation to Comment, *Agenda Consultation* (2021 ITC), to solicit broad stakeholder feedback about its future standard-setting agenda. Chapter 1, "Disaggregation of Financial Reporting Information," requested stakeholder feedback on improving the relevance of the statement of cash flows.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

3. Investors and other financial statement users generally agreed that greater disaggregation of the statement cash flows should be a priority for the Board to help them better perform their analyses. Preparers cautioned that the Board should conduct a thorough and transparent cost-benefit analysis in this area because they receive minimal questions on the cash flow statement and, therefore, assert that their investors receive sufficient information.
4. About half of the investors that responded broadly to the 2021 ITC provided feedback on the decision usefulness of the information presented in a statement of cash flows prepared using the indirect method. Overall, investors supported a need for both greater disaggregation and transparency of an entity's cash flows to better understand and analyze the entity's operating results. A majority of investors indicated that the current information provided by the indirect method limits their analyses and decision-making capabilities across entities.
5. A few noninvestor respondents—practitioners, preparers, and state society groups—provided feedback that they understand how a user's analysis of the statement of cash flows may be limited by the indirect method. While some respondents agreed that the Board should focus on addressing investors' concerns related to the statement of cash flows, others noted that the Board must carefully consider both investors' needs and preparers' costs in requiring further disaggregation of the statement of cash flows. Respondents in this area also noted the importance of the Board's ongoing outreach efforts with investors and other financial statement users before adding this type of project to its technical agenda.
6. A majority of preparers, alongside trade groups and state CPA societies, noted the potential complexity and associated costs with requiring the direct method. Overall, entities with complex operations and structures would see increased costs associated with the presentation of the statement of cash flows prepared using the direct method. One financial institution preparer continues to support the additional flexibility to use either the direct or indirect method to prepare a statement of cash flows. Specifically, users in certain industries that rely on a variety of different metrics find the statement of cash flows to be less relevant as compared with users of other industries. Another financial institution preparer agreed that there is no net benefit to changing the statement of cash flow requirements, as described in paragraphs 58–65 of the basis for conclusions in FASB Statement No. 95, *Statement of Cash Flows*. Therefore, both of those preparers support the Board continuing to provide additional flexibility in how the information in the statement of cash flow is presented because the costs to alter current systems, processes, and controls for requiring the direct method would be significant.
7. The main message received from users in response to the 2021 ITC is that the information provided in the cash flow statement under current GAAP does not always provide sufficient decision-useful information. Users have consistently asked for more information and

suggested various potential solutions, such as restructuring the cash flow statement, requiring the use of the direct method, further disaggregating cash flow statement information, providing reconciliations of the cash flow statement to the balance sheet and income statement, and requiring supplemental cash flow disclosures consistent with the direct method (for example, cash received from customers or paid to suppliers).

## Potential Project Objective and Scope

8. In considering the feedback provided by stakeholders, received through the 2021 ITC and over the past few years through advisory groups and outreach meetings, the staff developed the following objective and scope for a potential project.

### Objective

9. The proposed project's objective would be as follows: To make targeted improvements to the statement of cash flows and related disclosures to provide investors and other allocators of capital with additional decision-useful information.

### Scope

10. The staff developed a potential scope considering what type of improvements could be made in the near term to improve the information provided to investors and other allocators of capital in accordance with the suggested objective above:
  - (a) *Topic A—Disaggregation of Certain Cash Flow Statement Information:* As part of this project, the Board could pursue (i) providing a better linkage between changes in working capital on the balance sheet and cash flow statement and (ii) disaggregation of depreciation and/or amortization to link those amounts more clearly to the depreciable assets with which they are associated.
  - (b) *Topic B—Supplementary Direct Method Disclosures:* As part of this project, the Board could pursue requiring certain supplementary disclosures consistent with the direct method, primarily cash received from customers, cash paid to employees, and cash paid to suppliers.
  - (c) *Topic C—Direct Method—Codification Improvements:* As part of this project, the staff could research potentially removing the wording on *encouraged* in Topic 230, Statement of Cash Flows, related to the direct method, because the staff found in its research that only two companies out of the S&P 500 prepared their cash flow statements using the direct method. The staff also could research whether there continues to be a need for the requirement to provide a reconciliation of net income to net cash flow from operating activities when an entity utilizes the direct method.

## Agenda Criteria

11. When considering whether to add a project to its technical agenda, the Board evaluates potential projects against the following three criteria to ensure consistent agenda prioritization decisions:
  - (a) *There is an identifiable and sufficiently pervasive need to improve GAAP: What improvement is needed? To what extent does an issue affect investors, preparers, auditors, and others?*
  - (b) *There are technically feasible solutions, and the expected benefits of those solutions are likely to justify the expected costs of change: What are the various alternative ways that an issue can be addressed? What are the expected benefits of the solutions, and can the solutions be implemented?*
  - (c) *The issue has an identifiable scope: Can the FASB effectively identify the scope of a potential project? Can the issue be sufficiently described?*

**Board Meeting Handout  
Derivatives and Hedging  
June 29, 2022**

**Meeting Purpose**

1. The purpose of this meeting is to discuss feedback received from stakeholders on the June 2021 Invitation to Comment (ITC), *Agenda Consultation*, pertaining to Topic 815, Derivatives and Hedging.

**Questions for the Board**

1. What feedback does the Board have on the following issues identified by stakeholders:
  - (a) Hedge accounting and disclosure
  - (b) Definition of a derivative?
2. What feedback does the Board have on the staff's plan for moving forward?

**ITC Feedback on Topic 815, Derivatives and Hedging**

2. At the December 2021 Board meeting, the Board discussed broader stakeholder feedback received on the ITC and corresponding changes to the FASB's research agenda. Specifically, the Phase 2 Hedge Accounting project remained on the research agenda and the scope of this research project was expanded to also include potential changes to the definition of a derivative.
3. More than 30 items were identified by the ITC respondents on hedge accounting and the definition of a derivative, with the majority of issues being related to hedge accounting. Those items range from narrow issues pertaining to specific hedge accounting requirements to broader scope issues that would aim to change the definition of a derivative or expand the derivatives scope exception.
4. Overall, 10 percent of respondents indicated that Phase 2 Hedge Accounting is a research project that the Board should elevate to its technical agenda. Respondents identified additional targeted refinements and simplifications to various areas in fair value, cash flow, and net investment hedging to modernize the 25-year-old hedge accounting guidance to better align hedge accounting and disclosures more closely with an entity's modern day risk management

activities. No users, preparers, or practitioners indicated that the Board should deprioritize or consider removing Phase 2 Hedge Accounting from its research agenda.

5. Stakeholders provided feedback that the definition of a derivative and the related derivative scope exceptions in Subtopic 815-10, Derivatives and Hedging—Overall, should be reevaluated to consider whether the guidance continues to capture the intended types of instruments, especially because the nature of transactions have evolved since the June 1998 issuance of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Stakeholders stated that the definition of a derivative often captures transactions that, in their opinions, were not originally intended to be accounted for as derivative instruments.
6. Five percent of respondents identified the Codification Improvements—Hedge Accounting project as a top priority for the Board. Those respondents supported the Board continuing deliberations on this project and prioritizing the completion of redeliberations. No respondents expressed that the Board should deprioritize or consider removing Codification Improvements to Hedge Accounting from its technical agenda. Some of those respondents highlighted the challenges in current practice distinguishing between the hedged risk and the hedged forecasted transaction. They expressed that the change in hedged risk is a significant issue especially because of LIBOR cessation, changing market conventions for interest rates, and an ongoing emergence of replacement rates that an entity may desire to include within an active hedging program in the future. The topics of feedback received from the ITC respondents include:
  - (a) Hedge of Foreign Currency Translation Risk
  - (b) Forecasted Intra-Entity Transactions
  - (c) Foreign-Currency-Denominated Debt Issuance
  - (d) Portfolio Layer Method
  - (e) Chicago Mercantile Exchange (CME) Basis Spreads
  - (f) Credit Valuation Adjustment (CVA)
  - (g) Basis Spreads Across Various New Interests Rates
  - (h) Cross-Border Business Acquisitions as Hedged Items
  - (i) Equity Method Investments as Hedged Items
  - (j) Inflation Risk as Hedged Risk
  - (k) Held-to-Maturity Debt Security as Hedged Items
  - (l) Nonderivatives as Hedging Instruments

- (m) Written Options as Hedging Instruments
- (n) Float-for-Float Cross-Currency Swaps as Hedging Instruments
- (o) Dividends on Equity Classified Shares as Hedged Items
- (p) Effectiveness Assessment for Nonfinancial Assets and Liabilities
- (q) Shortcut Method for Forward Starting Swaps
- (r) Partial-Term Hedge
- (s) Perfectly Effective Assessment Methods and London Interbank Offered Rate (LIBOR) Cessation
- (t) Change in Hedged Risk in a Cash Flow Hedge
- (u) Contractually Specified Components in Cash Flow Hedges of Nonfinancial Forecasted Transactions
- (v) Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)
- (w) Use of the Term Prepayable under the Shortcut Method
- (x) Definition of a Derivative Overall
- (y) Payment Provision Criterion
- (z) Net Settlement Criterion
- (aa) Non-Exchange-Traded Scope Exceptions
- (bb) Regular-Way Derivative Scope Exception
- (cc) Derivative Contract Modifications
- (dd) Bifurcation Criteria for Embedded Derivatives
- (ee) Double-Double Test
- (ff) Derivatives and Hedging Disclosure.

## **Plans for Moving Forward**

7. The staff plans to continue research to better understand what information would be most useful for investors to understand an entity's risk management activities and how best to prioritize its efforts. That research will be considered at future decision-making meetings at which the Board will decide potential changes to its technical agenda.