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**Re: Discussion Paper Improving the Statement of Cash Flows**

Dear Sir/Madam,

the OIC is pleased to have the opportunity to comment the *Discussion Paper Improving the Statement of Cash Flows*.

**Question 1: Do you have any comments on the discussion of the usefulness of information about cash flows?**

The OIC agrees with the usefulness of information about cash flows as presented in Section 1 of UK FRC Discussion Paper.

**Question 2: Do you agree that notional cash flows should not be reported in the statement of cash flows, but that non-cash transaction should be transparently disclosed? If notional cash flows should, in your view, be reported, how would they be identified?**

Currently, non-cash investing and financing transactions are excluded from the statement of cash flows.

The OIC supports the FRC position on notional cash flows, in particular we agree with the principle described in par. 1.31 of the Discussion Paper (ie to anchor the classification of the cash flows on that prescribed by other accounting standards for the presentation of the related liabilities in the statement of financial position).

The OIC also notes that IAS 7 requires a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, which will include lease liabilities.

On this point, the OIC believes that the adoption of IFRS 16 *Leases* raises an issue that need to be considered. In particular, the OIC believes that, even if an entity would present in its statement of financial position operating lease liabilities separately from financing lease liabilities, cash payments relating to all leases should be classified as cash flows arising from financing activities in its statement of cash flow. This is because paragraph 17 of IAS 7 seems to consider cash payments by a lessee for the reduction of the outstanding liability relating to a lease as cash flow arising from financing activities.

The OIC thinks that such an issue needs to be further investigated in the project.

**Question 3: Do you agree that operating activities should be positively defined or described?**

IAS 7 defines operating activities as ‘the principal revenue-producing activities of the entity and other activities that are not investing or financing activities’ (paragraph 6). The OIC thinks that, it would be better to try to improve the existing one, rather than developing a new definition of operating activities.

**Question 4: Do you agree that capital expenditure should be reported within operating activities rather than as an investing activity, with sub-total drawn before capital expenditure, and disclosure of the extent to which capital expenditure represents ‘replacement’ or ‘expansion’?**

The OIC does not support the proposal to classify capital expenditure as operating activities, because we think that it would be difficult to distinguish between “replacement” and “expansion”.

**Question 5: What are your views on the reporting of cash flows relating to financing liabilities?**

The OIC agrees to remove the flexibility allowed by IAS 7 regarding cash flows from interest and dividends (received and paid). The OIC, also, agrees to classify dividend paid as financing cash flows.

**Question 6: Do you agree that tax is best dealt with in a separate section of the statement of cash flows?**

The OIC agrees with the DP proposal.

**Question 7: In your view, should the statement of cash flows report flows of cash or of cash and cash equivalents? How, in your view, should cash and/or cash equivalents be defined, and why?**

The OIC agrees that the statement of cash flows should report inflows and outflows of cash, rather than cash and cash equivalents.

In the OIC view, cash equivalents should be presented within the statement of cash flow consistently to other short-term investments.

**Question 8: Which cash flows should, in your view, qualify for net presentation in the statement of cash flows?**

The OIC has not been informed of any issues in applying the current requirements of IAS 7 about reporting cash flows on a net basis (par. 22-24 of IAS 7).

**Question 9: In your view, is it appropriate to require the presentation of a reconciliation of operating activities in all cases, and to prohibit presenting it within the statement of cash flows?**

The OIC supports the DP proposal relating to the presentation of a reconciliation between a sub-total in the statement of profit or loss that represents operating income and cash flow from operating activities.

**Question 10: Do you agree that the direct method statement of cash flows should be neither prohibited nor required?**

The OIC supports the proposal that the direct method statement of cash flows should be neither prohibited nor required.

The OIC is not convinced that the direct method of presenting operating cash flows provides information that is more decision-useful than the indirect method. It understands that users are split as to which of the two model they prefer.

**Question 11: Which components of cash flows from operating activities should an accounting standard identify as particularly significant, and why? How should standard-setters decide whether to require disclosure of the amount of such components or of changes in related working capital items?**

At this time, the OIC does not have any specific comments on this issue.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò  
(OIC Chairman)