Financial Reporting Council
8th Floor
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United Kingdom

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Submitted electronically to cashflows@frc.org.uk

Dear Mr. Lennard

Discussion Paper: Improving the Statement of Cash Flows

BT welcomes the opportunity to comment on the questions included in the Discussion Paper: Improving the Statement of Cash Flows.

BT's purpose is to use the power of communications to make a better world. It is one of the world's leading providers of communications services and solutions, serving customers in 180 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband, TV and internet products and services; and converged fixed-mobile products and services. BT consists of six customer-facing lines of business: Global Services, Business and Public Sector, Consumer, EE, Wholesale and Ventures, and Openreach.

We welcome and support this initiative from the Financial Reporting Council (FRC) to improve the usefulness of the statement of cash flows.

We trust that our response in Appendix A is helpful. If you have any questions or if you would like to discuss these comments, please do not hesitate to contact me.

Yours sincerely

[redacted]

GLYN PARRY
Director Group Finance Operations
BT Group plc

Appendix 1

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

We welcome the discussion of the usefulness of information about cash flows We agree the main purpose of the cash-flow information is to assist users in understanding performance and assessing the liquidity and working capital management

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

With regards to the above suggestion, we agree that notional cash flows should not be reported in the statement of cash flows, and that non-cash transactions should be transparently disclosed. We would encourage to the extent disclosure of non-cash transactions is already covered by other standards that no additional disclosure requirements are proposed in IAS 7 For example, IFRS 16 already has disclosure requirements around changes to the right of use assets and IFRS 7 already requires disclosure around transferred financial assets

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

We concur with the FRC that it would be useful to positively define operating activities and remove IAS 7's requirement to capture within operating activities 'other activities that are not investing or financing activities' We agree a separate section of the statement of cash flows would then be required to capture all relevant cash flows

We agree with the suggestion that unusual or non-recurring operating cash-flows should be separately disclosed. We believe it is a common non-GAAP disclosure to disclose these separately Embedding this within the requirements of IAS 7 will improve comparability.

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'?

We agree with the FRC's suggestion to report capital expenditure within operating activities as the net would represent an entity's financial performance on an ongoing trading basis This gives users of the financial statement the information they need to assess an entity's ability to generate shareholder value or repay providers of finance

We note that we present a non-GAAP measure of free cash flow, which adjusts the cash generated from operations for, amongst others, net capital expenditure, within our quarterly results announcements.

Whilst there would be benefits to disaggregating capital expenditure as either 'replacement' or 'expansion', we believe that it would be impractical to apply, resulting in arbitrary and subjective allocations between the categories

Question 5

What are your views on the reporting of cash flows relating to financing liabilities?

We support the FRC's suggestion regarding the classification of cash flows relating to financing liabilities

Question 6

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

With regards to the above proposal, we agree that tax is best dealt with in a separate section of the statement of cash flows

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?

We do not believe there are significant issues with the current approach to reporting cash and cash equivalents within the statement of cash flows. However, we note that there may be marginal benefits with the suggestion of eliminating the notion of cash equivalents and to require the information on the management of liquid resources to be reported in a separate section of the statement of cash flows

Question 8

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

With the exception of the net working capital movements included in the reconciliation to the cash generated from operations as part of the indirect method, we believe that net presentation in the statement of cash flows should be permitted only for cash flows relating to financial instruments that are of the same class.

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?

We believe that the FRC's suggestion to include a presentation of a reconciliation of operating activities in all (i e. direct or indirect method) cases would be beneficial. Such a reconciliation explains the relationship between operating performance and cash generation, as well as highlighting working capital changes and hence the efficiency with which resources have been managed

The current practice of including the reconciliation at the beginning of the cash flow statement facilitates its use rather than having it as a subsequent and separate note. Although not all of the items included within the reconciliation are cash flows, we do not believe that this should prohibit their inclusion within the statement of cash flows As noted in the Discussion Paper, the *Conceptual Framework* does outline that the users of the financial statements are presumed to 'have a reasonable knowledge of business and economic activities and who review and analyse the information diligently'

Question 10

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

With regards to the above proposal, we agree that the direct method statement of cash flows should be neither prohibited nor required.

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?

We believe that the significance of components of cash flows from operating activities varies depending on the nature of the entity. Accounting standards should ensure that entities have the ability to disclose those components that are particularly relevant to them. Detailed disclosures of the changes in working capital are important to explain which working capital item is significantly impacting the cash-flow Any further disclosure should be voluntary as entities would not have the same working capital structure