

Linda Feeney

From: Brian Stokell <brian.stokell@rentokil-initial.com>
Sent: 31 March 2017 12:18
To: cashflows
Cc: Sonia Goubo
Subject: Comments on Proposed Improvements to the Statement of Cash Flows

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Question 1

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

It is important that the statement of cash flows meets the needs of users of the accounts. Many businesses present alternative cash flow measures which are not shown on the statutory cash flow statement in order to better meet these needs. Typically we report a measure of “free cash flow” which is calculated by taking net cash flows from operating activities, capital expenditure and dividends received from investments in associates. This represents net cash from “non-discretionary activities” which is then available for use on discretionary activities such as dividends to shareholders, acquisitions and other expansion/growth activity.

The current sub-totals of operating, investing and financing don’t seem to have much relevance and the concept of free or available cash generated is more useful.

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?

Certain financing arrangements would be included by default if the cash flow statement included debt, rather than cash and cash equivalents (or similar liquidity measure). We present an alternative cash flow statement to our investors which includes movements on net debt. If we acquire a business which has finance leases on its balance sheet this can currently look confusing to users of the accounts when the acquisitions number in the cash flow is different to the business combinations note.

Question 3

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

As per Question 1 the current sub-totals of operating, investing and financing activities should be reviewed.

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’?

Most capital expenditure relates more to operating than investing as it is relatively non-discretionary. We include it in our definition of free cash flow along with cash flows from operating activities. What is

classified as expansion would need clear definition and cash flows relating to expansion could be included as investing activities.

Question 5

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

Interest related to debt financing is non-discretionary (once undertaken) and therefore we include the outflow in our definition of free cash flow. Clearly there is a decision as to whether financing is done via debt or equity, however once committed reporting interest in the same section as dividends to shareholders does not aid comparability.

Question 6

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

Again this is a non-discretionary cash flow and we report it in our free cash flow measure. So long as it is included as a separate line on the face of the cash flow it is less relevant whether it has its own section.

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?

As a minimum the statement of cash flows should report all flows of cash and cash equivalents, and this should be defined to include as a minimum all instruments that can be liquid within 12 months of the balance sheet date. In reality the penalties for liquidating illiquid assets are generally immaterial. Longer term cash and debt could be included in the definition.

Any restricted cash should be disclosed (for example cash held in bank accounts for third parties, such as deposits, which cannot be used but which are still liquid).

Question 8

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

So long as any cash flows presented net are clearly disclosed as such and restricted to instruments of the same class this seems acceptable.

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?

A reconciliation from operating profit to cash from operating activities is necessary and should not be prohibited from being presented on the statement of cash flows. Whichever profit measure is used it should be the closest to cash flows from operating activities to minimise clutter caused by adding back items, or confusing users by showing a P&L measure and then later a cash version of the same measure (eg interest and tax).

Question 10

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

Agree.

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?

Cash flows from operating activities is currently the most confusing area to users of the accounts. Potentially material items are currently confusing – for example a provision taken up close to the balance sheet with nothing spent against it in the period might give a user the impression that a cash inflow from provisions has been occurred. Material items should be clearly disclosed to present the cash element (even if this is as simple as separating working capital and provision movements into cash movements and non-cash movements). Any unusual/non-recurring material items should be disclosed separately. Significance is intrinsically linked to materiality.

If you require any further clarification of these comments please contact me.

Regards
Brian Stokell

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