

Financial Accounting

# Accounting Chair Pushes for New Look at Cash Flow Statement

June 10, 2026, 1:55 PM EDT

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## Summary by Bloomberg AI

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- Investors rely on cash flow details to analyze a business's liquidity and spot red flags like high cash burn rates, but financial reports may not always present the clearest picture.
- The Financial Accounting Standards Board should take a comprehensive look at how cash flows are recorded in corporate financial reports rather than just tweak certain rules, according to Chair Richard Jones.

The head of the US accounting rulewriter wants to reexamine how companies report the cash they generate and spend as such transactions get more complex.

Investors rely on cash flow details to analyze a business's liquidity and spot red flags like high cash burn rates. But financial reports may not always present the clearest picture for companies struggling to fit cash flows related to software or financial contracts into rigid categories.

The Financial Accounting Standards Board should take a comprehensive look at how cash flows are recorded in corporate financial reports rather than just tweak certain rules, Chair Richard Jones said. Some accounting and investing professionals also want to see a refresh—the statement format dates to the 1980s—as investors parse cash versus non-cash transactions for companies that increasingly use practices like stock-based compensation.

“It’s kind of important to step back and say, ‘What is the cash information that you find useful and why?’” Jones told Bloomberg Tax.

Investors cited improving cash flow rules as a top priority in the board's 2025 agenda outreach project. Board members on Thursday will discuss public feedback and weigh next steps.

Across the Atlantic, the London-based International Accounting Standards Board is examining its own rules and plans to publish cash flow-related proposals for public input next year.

Bank of America Corp. and JPMorgan Chase & Co. are among the companies that have told the accounting board that existing US cash flow requirements don't accurately reflect how financial institutions work. Still, FASB agreed in April to halt a bank-focused project in favor of broader work. The board is still researching possible revisions.

Businesses, investors, and auditors will likely diverge on the path forward.

"Everyone agrees cash is king, but it's hard to figure out what's going on in the kingdom when you look at the statement of cash flows," PwC US Chief Accountant Thomas Barbieri said.

### **'Arbitrary' Sections**

FASB established the structure for corporate cash flow reporting in 1987. The board wanted to provide better insights into where a company's income was coming from, according to University of Washington professor Sarah McVay.

It's one of several key financial statements, alongside the income statement and balance sheet. While the latter two don't directly measure cash over a given period under accrual accounting, the cash flow statement provides a window into inflows and outflows. It's divided into three main sections: operating, investing, and financing activities.

These classifications can be "somewhat arbitrary," said Scott Ehrlich, founder and managing director of educational organization Mind the GAAP LLC.

"Sometimes there are cash flows where it's hard to figure out what bucket they fall in," Ehrlich said.

"There's cash flows that seem to have elements of multiple buckets."

Cash flows from similar derivative contracts, for example, can be presented differently depending on their terms, Mind the GAAP told FASB in a 2025 letter.

The categories don't do a good job telling the story of financial institutions, Tulane University senior professor Christine Smith said. Because these institutions borrow and lend money for a living, the cash flow statement can give a "murky, muddled picture."

Cash activities that are fundamental to bank operations, such as accepting deposits, aren't typically classified within the operating section but instead identified as financing or investing activities under current rules, JPMorganChase told FASB.

Board members initiated a project in 2023 to reorganize the statement for financial institutions. However, they scrapped it in April following mixed feedback.

"I don't think they're working for anyone," FASB member Christine Ann Botosan said of the categories at the time, as they are "not based on real economic distinctions."

### **Non-Cash Items**

FASB's Jones says investors are clearly looking for insights into cash versus non-cash transactions to help them project corporate cash flows.

US companies are increasingly relying on stock-based compensation instead of just wages. Stock compensation grew nearly fivefold from 2006 to 2022, as measured as a percentage of sales, according to a Morgan Stanley report. Tech companies in particular have embraced it to attract talent.

Still, that expense "isn't necessarily portrayed on the statement of cash flows," PwC's Barbieri said.

Companies using the common "indirect method" of creating the statement adjust net income for non-cash expenses like stock compensation. These expenditures are added back to reconcile net income to cash flow from operating activities.

Not including the cost of stock-based compensation in operating cash flows creates "dangerous levels of overvaluation," according to a report by Niall O'Malley, portfolio manager at Blue Point Investment Management.

Footnote disclosures "are needed in the Cash Flow Statement to help investors understand actual cash from operations," O'Malley said over email, in his personal view.

### **Future Work**

FASB members have directed staff to research disclosures that could replace the cash flow statement for certain businesses.

If there's important information but the statement doesn't make sense for financial institutions, "that leads me to the direction of let's at least work with the SEC as a way to eliminate it and replace with disclosure that would be meaningful," board member Frederick Cannon said in April.

Still, an alternative to the statement or some type of exception for financial institutions hasn't garnered broad investor support, CFA Institute senior director of advocacy Matt Winters told Bloomberg Tax.

Investors are prioritizing cash flow statement changes that would improve disclosures and further break down investing cash flows, a 2025 CFA Institute survey suggests.

FASB continues to receive input about the cash flow statement and plans to consider all agenda outreach-related input over the coming months, Jones said in an email.

The standard setter will need to weigh investor input and potential costs companies could incur from accounting changes, Barbieri said.

"It's a question around, 'How can you give some more insights to users that's accurately portraying a story without creating a massive burden for preparers?'" Barbieri said.

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