
IASB[®] meeting

Date **December 2025**

Project **Statement of Cash Flows and Related Matters**

Topic **Classification and presentation of cash flows**

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Objective of the paper

1. This paper discusses the stakeholder feedback from outreach conducted during 2024 and 2025 on the requirements in IAS 7 *Statement of Cash Flows* for classifying cash flows and seeks direction from the International Accounting Standards Board (IASB) on which issues to explore further to develop potential solutions to address the issues raised by stakeholders. Agenda Paper 20C *Presentation of cash flows from continuing and discontinued operations*, prepared for this meeting, discusses the presentation of cash flows from continuing and discontinued operations.
2. Future papers will discuss:
 - (a) recommendations for potential solutions for addressing the issues raised by stakeholders; and
 - (b) the feedback from stakeholders on:
 - (i) lease-related payments—because of the ongoing [*Post-implementation Review of IFRS 16 Leases*](#) project;

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- (ii) income tax payments—because stakeholders disagree with the classification of income tax payments despite there being no inconsistent application of the requirements in IAS 7;¹ and
 - (iii) foreign exchange differences—because foreign exchange differences themselves are not cash flows.
 - 3. Appendix C includes the stakeholder feedback on the issues listed in paragraph 2(b) that is not discussed in this paper.

Summary of staff recommendations

- 4. We recommend the IASB:
 - (a) explore solutions for the:
 - (i) classification of acquisition-related payments in a business combination;
 - (ii) classification and presentation of cash flows from derivatives;
 - (iii) classification and presentation of receipts of government grants; and
 - (iv) amending the principle for classifying cash flows in paragraph 11 of IAS 7 to help entities apply the principle more consistently;
 - (b) revisit the following issues after the IASB has concluded its discussions on strengthening the existing disclosure requirements on non-cash transactions and other non-cash changes:
 - (i) classification of payments that are deferred; and
 - (ii) classification and presentation of cash flows involving third-party finance providers.

¹ With 'inconsistent application' we mean that the requirements in IAS 7 are applied inconsistently in that transactions of a similar nature are classified (or presented) differently by entities.

Structure of the paper

5. This paper is structured as follows:
- (a) background (paragraphs 6–41);
 - (b) staff analysis (paragraphs 42–97);
 - (c) staff recommendations and question for the IASB (paragraphs 98–101);
 - (d) Appendix A—Potential solutions to address the issues raised by stakeholders;
 - (e) Appendix B—Potential solutions suggested by stakeholders for classifying receipts of government grants; and
 - (f) Appendix C—Feedback on issues not discussed in this paper.

Background

6. This section is structured as follows:
- (a) feedback received (paragraphs 7–38); and
 - (b) IASB tentative decisions at the May 2025 IASB meeting (paragraphs 39–41).

Feedback received

7. Since the inception of the project, the IASB has received feedback on the requirements for classifying cash flows from many stakeholders, including the Accounting Standards Advisory Forum (ASAF), the IFRS Interpretations Committee (IC), the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC) and the Emerging Economies Group (EEG).
8. The feedback from outreach conducted with stakeholders in 2024 and early 2025—the initial research phase—is described in detail in [Agenda Paper 20A](#) and [Agenda Paper 20B](#) of the March 2025 IASB meeting. Following that meeting, the IASB conducted further outreach with the IC and ASAF in September 2025 and October 2025—including a request for written feedback from ASAF members on specific items for which we needed more information on the underlying fact patterns.

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9. Feedback from CMAC was limited—one reason being that it is difficult to determine whether entities have classified (or presented) cash flows differently to other entities from an analysis of the statement of cash flows (see also paragraph 46).
10. Stakeholders, when giving feedback, often did not distinguish between inconsistent application of the requirements in IAS 7 and differences in classification (or presentation) of cash flows as a result of the transactions themselves being of a dissimilar nature. With inconsistent application we mean that the requirements in IAS 7 are applied inconsistently in that transactions of a similar nature are classified (or presented) differently by entities. Therefore, in this paper, we generally use the terms ‘classified (or presented) differently by entities’ or ‘differences in classification (or presentation)’ unless it is clear from the feedback that entities are applying the requirements in IAS 7 inconsistently.
11. Paragraphs 12–38 summarise the feedback received, specifically:
- (a) acquisition-related payments in a business combination (paragraphs 12–18);
 - (b) cash flows related to supplier finance arrangements (paragraphs 19–21);
 - (c) cash flows related to factoring arrangements (paragraphs 22–23);
 - (d) cash flows from derivatives (paragraphs 24–25);
 - (e) receipts of government grants (paragraphs 26–28); and
 - (f) other feedback (paragraphs 29–38).

Acquisition-related payments in a business combination

12. Many ASAF, IC and GPF members said acquisition-related payments in a business combination are classified differently by entities, specifically:
- (a) payments of deferred and contingent consideration (paragraphs 13–14);
 - (b) repayments of pre-existing debt by the acquirer (paragraphs 15–17); and
 - (c) other acquisition-related payments (paragraph 18).

Payments of deferred and contingent consideration

13. Some ASAF, IC and GPF members said there can be significant judgment involved in determining whether payments of deferred and contingent consideration relate to obtaining control or whether the expenditure results in the recognition of an asset in the statement of financial position.
14. They said entities classify payments of deferred and contingent consideration in one of the following ways:
- (a) investing cash flows (because the payment relates to obtaining control);
 - (b) financing cash flows (because the payment is a repayment of a liability); or
 - (c) a mix of investing, financing and possibly operating cash flows—that is, the payment is split into:
 - (i) a component reflecting the settlement of the fair value of the consideration recognised on initial recognition (typically classified as investing cash flows);
 - (ii) a component reflecting the time value of money—a ‘financing component’ (typically classified as financing cash flows); and
 - (iii) a component reflecting adjustments to the fair value of contingent consideration because of updated estimates or conditions, if applicable (no classification was specified by stakeholders).

Repayments of pre-existing debt by the acquirer

15. Some ASAF and IC members said that repayments of pre-existing debt by the acquirer are classified differently by entities and that classification can depend on whether the repayment is:
- (a) in substance consideration paid on behalf of the seller under the share purchase agreement (typically classified as investing cash flows); or
 - (b) triggered by a change of control clause embedded in the liability (typically classified as financing cash flows).

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16. Similarly, one IC member said that the classification of repayments of pre-existing debt can depend on whether the repayments are:
- (a) voluntarily made (typically classified as financing cash flows); or
 - (b) compulsory (typically classified as investing cash flows).
17. One IC member also said some entities classify a repayment of pre-existing debt as an investing cash flow irrespective of the reason for the repayment because they view the repayment as necessary for obtaining control of a business.

Other acquisition-related payments

18. Some ASAF, IC and GPF members said other acquisition-related payments, such as transaction costs or payments for post-acquisition services for which the expenditures do not result in the recognition of an asset in the statement of financial position are classified differently by entities (for example, fees for accountants, auditors, lawyers or brokers). They said some entities classify such payments as investing cash flows because based on the view that:
- (a) these payments are necessary for obtaining control of a business and are directly related to the acquisition; and
 - (b) classifying such payments as operating cash outflows would not faithfully reflect the economic substance of the transaction.

Cash flows related to supplier finance arrangements

19. Many ASAF, IC and EEG members said payments related to supplier finance arrangements are classified differently by entities because IAS 7 does not include specific guidance. They said some entities classify such cash flows as operating cash flows while others classify them as financing cash flows.
20. One IC member said that the [Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring](#) (which explains that an entity might consider the classification of the liability in the statement of financial position when determining how to classify the cash outflows to the provider of finance) does not appear to

prevent cash flows from transactions of a similar nature often being classified differently by entities in the statement of cash flows because entities classify the liability differently in the statement of financial position.²

21. Some IC members also said entities present either a single cash outflow in the statement of cash flows or multiple cash flows, and that such presentation can depend on whether the entity:
- (a) reclassifies the trade or other payable (to a financial liability other than a trade or other payable) within the statement of financial position, for example, upon the provider of finances' payment to the supplier, in which case some entities:
 - (i) present an operating cash outflow and a financing cash inflow (presentation of 'notional cash flows'³); or
 - (ii) do not present any cash flows in the statement of cash flows at this point in time (disclosure of non-cash transactions in the notes to the financial statements);
 - (b) concludes that the provider of finance is acting on behalf of the entity, in which case some entities present:
 - (i) a single cash outflow to the provider of finance because they conclude that the provider of finance is not acting on behalf of the entity; or
 - (ii) multiple cash flows because they conclude that the provider of finance is acting on behalf of the entity.⁴

Cash flows related to factoring arrangements

22. Many ASAF and IC members said cash flows related to factoring arrangements are often classified differently by entities because IAS 7 does not include specific

² At its November 2025 meeting, the IC decided to recommend to the IASB to withdraw this agenda decision. It is expected that the IASB decides on this in January 2026.

³ By 'notional cash flows'—for the purposes of this paper—we mean a theoretical cash flow for which no cash has been exchanged.

⁴ That is, upon the provider of finances' payment to the supplier, a cash inflow for the theoretical receipt of funds from the provider of finance, a cash outflow for the theoretical payment of the liability with the supplier and, later, a real cash outflow for the payment of the liability to the provider of finance.

guidance. They said this difference in classification arises irrespective of whether the receivable is derecognised in the statement of financial position because entities classify the cash inflow from the factor based on their ‘view’ of the transaction. For example, if the entity views the transaction to be a sale of goods the cash flows are typically classified as operating cash inflows. In contrast, if the entity views the transaction to be the provision of finance the cash flows are typically classified as financing cash inflows.

23. However, IC members said cash flows related to factoring arrangements are often classified or presented differently by entities when the receivable is not derecognised. Specifically, because the entity might receive:
- (a) payments both from the factor and its customer (and transfer payments to the factor)—in which case entities present multiple cash flows which might be classified differently;⁵ or
 - (b) payment only from the factor—in which case entities either present:
 - (i) a single cash inflow (and possibly disclose information within their disclosures of non-cash transactions); or
 - (ii) multiple cash flows on the basis that the factor is collecting the payments on behalf of the entity (presentation of notional cash flows).

Cash flows from derivatives

24. Some ASAF and IC members said cash flows from derivatives are sometimes classified differently depending on whether the derivatives are designated as hedging instruments (hedge accounting) or used as economic hedges (not subject to hedge accounting).
25. Some also said it was unclear whether for cash flows from derivatives used as economic hedges:

⁵ For example, some entities might classify receipts from the factor as financing cash inflows, receipts from the customer as operating cash inflows and payments to the factor as financing cash outflows.

- (a) the classification of the underlying item determines the classification of the cash flows from the derivative in cases where IAS 7 does not include specific guidance; or
- (b) the cash flows from the derivative should be bifurcated for the purposes of the statement of cash flows if the derivative hedges multiple underlying items for which the cash flows are classified in different categories.

Receipts of government grants

26. Some ASAF and IC members said receipts of government grants are classified differently by entities because IAS 7 does not include specific guidance on their classification. They said that further potential reasons for why receipts of government grants are classified differently by entities are:
- (a) the significant judgement that might be required in determining which underlying assets, liabilities or expenses a government grant relates to because government grants:
 - (i) are sometimes only loosely related to specific assets, liabilities or expenses; or
 - (ii) can relate to multiple underlying assets, liabilities or expenses; and
 - (b) that receipts of government grants might be conditional on the occurrence of specific events and receipts and might:
 - (i) need to be repaid if specific conditions are not met; or
 - (ii) be deferred until specific conditions are met.
27. One IC member said some entities classify the receipt of government grants that relate to the purchase or construction of an asset as cash flows from:
- (a) investing activities—based on the view that such grants in substance have the effect of lowering the cost of the asset;
 - (b) financing activities—based on the view that government grants provide an alternative form of financing; or

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- (c) operating activities—based on the view that the receipt of government grants does not meet the definitions in paragraph 6 of IAS 7 for investing or financing activities.
28. One IC member also said receipts of government grants that relate to the purchase or construction of an asset are presented differently by entities. Specifically, some entities present payments to acquire property, plant and equipment:
- (a) net of the receipt of government grants within cash flows from investing activities (net presentation); and
 - (b) separately from the receipt of government grants, which are classified (or presented) either within cash flows from investing or financing activities (gross presentation).

Other feedback

29. We also received feedback from stakeholders on other issues, specifically:
- (a) classification when payments are deferred (paragraphs 30–31);
 - (b) classification of cash flows depends on the principal revenue-producing activities (paragraphs 32–34); and
 - (c) conceptual issues (paragraphs 35–38).

Classification when payments are deferred

30. Some ASAF, GPF and IC members said entities classify payments that are deferred differently (that is, when the initial transaction is a non-cash transaction and payment is made at a later date). For example, some entities classify payments for the acquisition of property, plant and equipment on deferred payment terms as financing cash flows rather than investing cash flows.⁶

⁶ See also paragraphs 13–14 on payments of deferred and contingent consideration in a business combination.

31. Some ASAF and IC members also said deferred payment terms might indicate that the transaction includes a financing element and that the resulting cash flows should perhaps be classified differently than if there is no financing element.

Classification of cash flows depends on the principal revenue-producing activities

32. Some ASAF and IC members said cash flows are classified differently by entities when a cash flow meets the definition of more than one category. Examples mentioned for which there is tension between specific guidance in IAS 7 and the definitions in paragraph 6 of IAS 7 are:
- (a) the acquisition of plant and equipment by a lessor for which leasing is the principal revenue-producing activity; and
 - (b) the acquisition of property by an entity that, as a main business activity, rents out property—particularly, if there is significant judgement involved in determining whether the entity, as part of its ordinary activities, routinely sells property that it has held for rental to others.
33. Feedback was that such payments are classified either as:
- (a) operating cash flows—because the entity considers these payments to be related to their principal revenue-producing activities in accordance with paragraph 6 of IAS 7; or
 - (b) investing cash flows—because paragraph 16 of IAS 7 states that cash payments to acquire property, plant and equipment are cash flows from investing activities.
34. Some ASAF and IC members also said although what constitutes the entity's principal revenue-producing activities should generally be determinable, specific challenges might arise for conglomerates (that is, entities with diversified activities), thus, having more guidance on how to determine an entity's principal revenue-producing activities would be beneficial.

Conceptual issues

35. Some ASAF, IC, GPF and EEG members said having greater alignment between the statement of cash flows and the statement of profit or loss would be beneficial, most of which did not specify why. Some said:
- (a) classifying payments for the acquisition of property, plant and equipment or intangible assets as investing cash flows does not faithfully represent how an entity runs its business because these payments relate to future revenue;
 - (b) using the same labels in both statements suggests that the ‘concepts’ are the same, which can be misleading. Hence, the same ‘concept’ should be used in both statements (for example, ‘investing’ should ‘mean’ the same thing in the statement of cash flows and the statement of profit or loss); and
 - (c) aligning the categories would make it easier for users to understand the primary financial statements.
36. A few ASAF members said the requirements in IAS 7 generally work well and that only minor improvements were necessary. However, some ASAF, GPF and EEG members suggested the IASB add examples of cash flows that relate to operating, investing or financing activities to IAS 7 to better reflect current market practice (for example, for cash flows relating to supplier finance and factoring arrangements).
37. A few ASAF and IC members said the principle for classifying cash flows should be made more explicit in IAS 7, questioning whether:
- (a) the classification of cash flows should generally follow the entity’s main business activities; or
 - (b) a ‘cohesiveness principle’ should be applied if IAS 7 does not include specific guidance on a particular transaction (that is, whether the classification in the statement of cash flows should follow the classification in the statement of financial position).

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38. Some ASAF and IC members said the IASB should also consider requiring that entities disclose their classification ‘choices’ in cases where IAS 7 does not include specific guidance on how to classify a specific transaction.

IASB tentative decisions at the May 2025 IASB meeting

39. At its [May 2025 IASB meeting](#), the IASB tentatively decided:
- (a) to assess potential ways to improve the consistent application of the requirements to classify cash flows as operating, investing or financing;
 - (b) to not aim to redefine the operating, investing and financing categories in IAS 7; and
 - (c) to not develop specific requirements for offsetting cash flows.
40. At that meeting, the IASB expressed some interest in the staff conducting analysis on whether the classification of specific items—for which stakeholders disagreed with their classification, despite there being no inconsistent application of the requirements in IAS 7—could be changed (for example, for income tax payments).⁷
41. IASB members also discussed whether some of the issues mentioned by stakeholders should be referred to the IC. IASB members had mixed views on this, with some members saying that involvement of the IC should occur sooner rather than later, while others said they preferred standard-setting before involving the IC.

Staff analysis

42. Following our analysis of the feedback, we note that the issues raised relate to:
- (a) application issues with existing guidance (for example, tension between the principle in paragraph 11 of IAS 7, the definitions of operating, investing or financing activities in paragraph 6 of IAS 7 and specific guidance in IAS 7); or
 - (b) an absence of specific guidance for particular fact patterns (or both).

⁷ Issue to be dealt with in a future paper (paragraph 2).

43. This section analyses the issues raised and discusses whether the IASB should develop solutions to address these issues. The section is structured as follows:

- (a) analysis of issues raised by stakeholders (paragraphs 44–92); and
- (b) analysis on the principle for classifying cash flows (paragraphs 93–97).

Analysis of issues raised by stakeholders

44. The following issues have been identified and are discussed in this section:

- (a) acquisition-related payments in a business combination (paragraphs 47–53);
- (b) cash flows involving third-party finance providers (paragraphs 54–70);
- (c) cash flows when items relate to other items (paragraphs 71–82);
- (d) deferred payments (paragraphs 83–89); and
- (e) cash flows for which classification depends on the principal revenue-producing activities (paragraphs 90–92).

45. For some of the examples mentioned by stakeholders there is more than one underlying issue. We assigned the examples to the issue that best reflects the primary driver of why entities classify (or present) cash flows differently.

46. No outreach was conducted specifically on the pervasiveness of the issues mentioned by stakeholders.⁸ Our financial statement analysis also did not provide a conclusive picture of the pervasiveness of specific issues because it is difficult to determine whether entities have classified (or presented) cash flows differently to other entities from an analysis of the statement of cash flows (see also [Agenda Paper 20C](#) of the March 2025 IASB meeting). Therefore, for our initial analysis, we suggest using stakeholder mention as an indicator of pervasiveness.⁹

⁸ Stakeholders raised issues during our initial outreach phase, which were then further discussed at the IC and ASAF meetings in September and October 2025. Therefore, it remains somewhat unclear whether an issue is pervasive or whether it was repeatedly discussed because it was included in the materials for the meetings with the IC and ASAF.

⁹ The IASB could decide to test the pervasiveness of an issue with stakeholders once it has done further analysis on that issue.

Acquisition-related payments in a business combination

47. From the feedback it appears that some entities classify acquisition-related payments in a business combination as investing cash flows even if they do not meet the definition of investing activities in paragraph 6 of IAS 7 because they:
- (a) do not consider these activities operating activities; or
 - (b) consider these payments necessary for obtaining control of a business (notably, paragraph 39 of IAS 7 requires that cash flows arising from obtaining control of a business be classified as investing cash flows) (paragraphs 12–18).
48. We note that the definition of ‘operating activities’ includes not only the principal revenue-producing activities of an entity, but also other activities that are not investing or financing activities as defined in paragraph 6 of IAS 7—hence, acquisition-related payments are not precluded from being operating cash flows (see paragraph 47(a)).
49. Furthermore, paragraph 6 of IAS 7 defines ‘investing activities’ as the acquisition [...] of long-term assets and other investments [...]. Furthermore, paragraph 16 of IAS 7 specifies that only expenditures that result in a recognised asset are eligible for classification as investing activities. Hence, only payments that result in the recognition of an asset are eligible to be investing cash flows.
50. Paragraph 39 of IAS 7 (reproduced below) requires that cash flows arising from obtaining control of a business be classified as investing cash flows. However, no further guidance is provided in IAS 7 on how to determine which payments arise from ‘obtaining control’.
- 39 The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.
51. Applying paragraph 16 of IAS 7 in conjunction with paragraph 39 of IAS 7 an entity would conclude that payments that relate to obtaining control of a business are

investing cash flows to the extent they lead to the recognition of an asset. However, it might be difficult for an entity to link specific payments to the assets acquired if the transaction involves:

- (a) multiple forms of consideration (for example, a mix of cash and shares); and
- (b) multiple items (for example, the acquisition of assets and the settlement of pre-existing debt).

52. We think the differences in classification result from both:

- (a) stakeholders' differing views on which cash flows should relate to operating, investing or financing activities; and
- (b) application issues with the guidance in paragraphs 16 and 39 of IAS 7.

53. We think the differences in classifying acquisition-related payments in a business combination are likely to persist if this issue is not addressed by the IASB.

Specifically, we think the IASB should clarify the interaction between the guidance in paragraphs 16 and 39 of IAS 7 (paragraphs A3–A7 in Appendix A include a possible solution the IASB could explore).

Cash flows involving third-party finance providers

54. For cash flows involving 'third-party finance providers'¹⁰, such as when an entity enters into a supplier finance or factoring arrangement, feedback was that there are differences both in:

- (a) the classification of cash flows (paragraphs 55–63); and
- (b) the presentation of cash flows (paragraphs 64–70).

¹⁰ By 'third-party finance provider' we mean a third party that is directly involved in the transaction (either by paying cash to or receiving cash from a counterparty of the entity, such as a supplier or customer). We draw this distinction to differentiate, for example, from cases where a bank is providing a loan to an entity in a separate transaction for the subsequent purchase of assets.

Classification of cash flows involving third-party finance providers

55. From the feedback it appears that entities classify cash flows from supplier finance and factoring arrangements differently (paragraphs 19–23). We think the differences in classification do not necessarily result from inconsistent application of the requirements in IAS 7. Rather the differences in classification are likely to result from:
- (a) differences in the underlying economic circumstances; or
 - (b) a lack of guidance on how to determine the underlying ‘activity’. For example, it appears that some entities classify cash flows from supplier finance and factoring arrangements as operating because the transaction involves the purchase or sale of goods or services. Others appear to classify the cash flows as financing because of the involvement of a third-party finance provider.
56. IAS 7 does not include specific guidance on how to classify cash flows from supplier finance and factoring arrangements. However, IAS 7 lists:
- (a) cash receipts from the sale of goods and the rendering of services as cash flows from operating activities (paragraph 14(a) of IAS 7);
 - (b) cash payments to suppliers for goods and services as cash flows from operating activities (paragraph 14(c) of IAS 7); and
 - (c) cash repayments of amounts borrowed as cash flows from financing activities (paragraph 17(d) of IAS 7).
57. For payments related to supplier finance arrangements the [Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring](#) explains that an entity might consider the classification of the liability in the statement of financial position when determining how to classify the cash outflows to the provider of finance, for example:
- (a) if the liability is classified as a trade or other payable that is part of the working capital used in the entity’s principal revenue-producing activities an entity might conclude that the cash outflows are cash flows from operating activities; or

- (b) if the liability is classified as other financial liabilities in the statement of financial position an entity might conclude that the cash outflows are cash flows from financing activities.
58. At its November 2025 meeting, the IC decided to recommend to the IASB to withdraw the [Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring](#) because of the changes implemented by IFRS 18 *Presentation and Disclosure in Financial Statements* (see [Agenda Paper 9B](#)). If the IASB decides to withdraw this agenda decision,¹¹ it is unclear whether this will have a significant impact on the differences in classification observed in practice, making further analysis necessary. For example, if the IASB decides to withdraw the agenda decision, it would need to decide whether it wishes to keep the link between the classification of cash flows in the statement of cash flows and the classification of liabilities in the statement of financial position for supplier finance arrangements (for example, by adding guidance to IAS 7).
59. Irrespective of the IASB’s decision on the agenda decision, we note that users need to be able to understand the classification of these cash flows—either through their presentation in the statement of cash flows or through disclosures in notes (if information in the statement of cash flows is too aggregated).
60. For supplier finance arrangements, paragraphs 44F–44H of IAS 7 require an entity to ‘disclose information about its supplier finance arrangements [...] that enables users of financial statements to assess the effects of those arrangements on the entity’s [...] cash flows [...]’. No comparable requirement exists in IAS 7 for factoring arrangements. Paragraphs 42A–42H of IFRS 7 *Financial Instruments: Disclosures* include disclosure requirements for transfers of financial assets. However, these disclosure requirements do not focus specifically on cash flows.
61. Paragraph 114 of IFRS 18 requires that if amounts disclosed in the notes are included in one or more line items in the primary financial statements, an entity shall disclose

¹¹ It is expected that the IASB will decide on whether it wishes to withdraw this agenda decision in January 2026.

the line item(s) in which the amounts are included. While the requirement in IFRS 18 applies to all amounts disclosed—including cash flows—in practice, many entities are likely to only disclose limited information on cash flows in their notes to the financial statements.

62. Hence, the requirements in IAS 7, IFRS 7 and IFRS 18 might not provide users with sufficient information on the classification of these cash flows.
63. We recommend the IASB revisit this issue after it has concluded its discussions on strengthening the existing disclosure requirements on non-cash transactions and other non-cash changes (see also [Agenda Paper 20A](#) and [Agenda Paper 20B](#) of the October 2025 IASB meeting).

Presentation of cash flows involving third-party finance providers

64. From the feedback it appears that some entities present multiple (notional) cash flows in the statement of cash flows for supplier finance and factoring arrangements even if there is only one real cash flow to or from the entity. From the feedback it appears that this is often the case if an entity:
- (a) reclassifies, in a supplier finance arrangement, the trade or other payable to a financial liability other than trade or other payable (for example, upon the provider of finances' payment to the supplier); or
 - (b) concludes that the provider of finance is acting on behalf of the entity (paragraph 21).
65. We note that paragraph 6 of IAS 7 defines cash flows as 'inflows and outflows of cash and cash equivalents' and that paragraph 10 of IAS 7 states that the statement of cash flows 'shall [only] report cash flows during the period'.
66. Therefore, we think it is clear from IAS 7 that an entity should not present notional cash flows in the statement of cash flows. However, we acknowledge that entities might find it difficult to apply judgement when determining whether a cash flow (as

defined in IAS 7) has occurred, particularly if a third-party finance provider is involved in the transaction.

67. Paragraph 43 of IAS 7 specifies that investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows and that such transactions shall be disclosed elsewhere in the financial statements (disclosure of non-cash transactions). IAS 7 does not require disclosure of non-cash changes in items that are **not** non-cash transactions.
68. [At its October 2025 meeting](#), the IASB tentatively decided to develop potential requirements that would specify the content and location of information an entity discloses about non-cash transactions and that would also require an entity to disclose information about specified types of non-cash changes other than the non-cash transactions for assets and liabilities that make up the components of working capital.
69. We think the differences in presentation of cash flows are likely to persist if this issue is not addressed by the IASB. However, we think developing guidance on when an entity shall present a single or multiple cash flows (that is, developing guidance on when a cash flow has occurred) might be equally challenging to developing specific requirements for offsetting cash flows, which the IASB, at its May 2025 meeting, tentatively decided against (paragraph 39).
70. Similarly to our recommendation for the classification of cash flows involving third-party finance providers (paragraph 63), we recommend the IASB revisit this issue after it has concluded its discussions on strengthening the existing disclosure requirements on non-cash transactions and other non-cash changes.

Cash flows when items relate to other items

71. For cash flows of items that relate to other items, feedback was that differences in the classification and presentation of cash flows arise for:
- (a) derivatives (paragraphs 72–76); and
 - (b) government grants (paragraphs 77–82).

Derivatives

72. From the feedback it appears there is uncertainty on how:
- (a) to classify cash flows from derivatives that economically hedge an underlying item for which the cash flows are operating cash flows (for example, foreign currency trade receivables or trade or other payables); or
 - (b) to classify and present cash flows from derivatives that hedge multiple underlying items (paragraph 25).
73. Paragraph 16(g)–(h) of IAS 7 specify—for economic hedges—that cash flows from derivatives are classified as investing activities unless:
- (a) they are held for dealing or trading purposes (cash flows are classified as operating activities); or
 - (b) the related cash flows are classified as financing activities (cash flows are classified as financing activities).
74. Consequently, derivatives that economically hedge an underlying item for which the cash flows are operating cash flows would be classified as investing cash flows (for example, derivatives that hedge foreign currency trade receivables or trade or other payable). However, ‘investing activities’ is defined in paragraph 6 of IAS 7 as ‘the acquisition and disposal of long-term assets and other investments not included in cash equivalents [...]’. Therefore, derivatives that economically hedge an underlying item for which the cash flows are operating cash flows would generally not meet the definition of investing activities in paragraph 6 of IAS 7.
75. We think the tension between paragraph 16 of IAS 7 (that is, cash flows from derivatives used as economic hedges are investing cash flows unless they are held for dealing or trading purposes or relate to financing activities) and the definition of investing activities in paragraph 6 of IAS 7 (that is, derivatives that economically hedge an underlying item for which the cash flows are operating cash flows would generally not meet the definition of investing activities) is likely to persist unless the IASB provides clarification on this issue. In addition, IAS 7 is silent on how to

present cash flows from derivatives that hedge multiple underlying items (for example, whether the cash flow from the derivative should be split and presented in more than one category if the cash flows from the underlying items are classified in more than category).

76. Paragraphs A8–A11 in Appendix A include suggestions for how the IASB could address the classification and presentation issues raised by stakeholders.

Government grants

77. From the feedback it appears that some entities classify receipts of government grants in the same category as the cash flows of the underlying asset, liability or expense (paragraphs 26–27). In addition, some entities present receipts of government grants on a net basis (paragraph 28). For example, if the receipt is for the acquisition of property, plant and equipment, payments and receipts are ‘netted’ and classified and presented as investing cash flows.
78. IAS 7 is silent on:
- (a) how to classify receipts of government grants, that is, whether the classification of such receipts should follow the classification of the underlying asset, liability or expense; and
 - (b) whether to present receipts of government grants on a gross or net basis in the statement of cash flows.
79. Paragraph 22 of IAS 7 explains when an entity may report cash flows on a net basis but makes no reference to government grants. Hence, it might be unclear for entities whether they are permitted to analogise to the examples given in paragraphs 23–24 of IAS 7 of cash flows that may be reported on a net basis (for example, rents collected on behalf of, and paid over to, the owners of properties).

- 22 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

80. We think the differences in the classification and presentation of receipts of government grants are likely to persist if the IASB does not add guidance on how to classify and present receipts of government grants.
81. We note that the IASB tentatively decided not to develop specific requirements for offsetting cash flows at its May 2025 meeting (paragraph 39). However, we think the IASB could clarify the presentation of receipts of government grants because this is a distinct issue. In addition, we note that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* allows entities:
- (a) to present government grants related to assets in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset; and
 - (b) to include government grants related to income in the statement of profit or loss either as income or as a deduction in the related expense.
82. Paragraphs A12–A14 in Appendix A include solutions the IASB could explore for both the classification and presentation of receipts of government grants.

Deferred payments

83. From the feedback it appears that some entities classify cash flows differently, depending on their timing. IAS 7 does not include guidance on whether the timing of a payment changes the underlying activity (and consequently, the classification). Therefore, we think the differences in the classification of deferred payments are likely to persist unless the IASB provides guidance.

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84. The IASB could specify whether the timing of payments changes the underlying activity, and consequently, its classification in the statement of cash flows, specifically whether deferred payments for the purchase of an asset:
- (a) are classified in accordance with paragraph 14 of IAS 7 (operating activities) or paragraph 16 of IAS 7 (investing activities); or
 - (b) are classified financing activities due to the deferral of payment.
85. Three views could be taken on this:
- (a) View 1—the timing of the payment does not change the nature of the activity, that is, the payment is either an operating or an investing cash flow, depending on the asset acquired;
 - (b) View 2—the timing of the payment changes the nature of the activity, that is, the transaction includes a ‘financing component’ and, consequently, the payment is a financing cash flow; or
 - (c) View 3—the timing of the payment changes the nature of the activity, but classification depends on how the liability is classified in the statement of financial position, that is, the payment is either an operating cash flow (liability is classified as a trade or other payable) or a financing cash flow (liability is classified as a financial liability other than a trade or other payable).
86. View 1 seems consistent with how the requirements in IAS 7 are set up, that is, classification is by activity, unless otherwise specified in IAS 7 (see also paragraphs 94–95).¹² View 1 might, however, be difficult for entities to apply in some cases (for example, inventory purchased on deferred payment terms might have already been sold). View 2 might be seen as too rigid because it ignores the fact that the initial activity relates to the purchase of an asset (for which payments are generally classified

¹² View 1 is also consistent with the IC’s conclusion on the classification of payments of deferred consideration in a business combination in September and November of 2011 ([Agenda Paper AP9](#) and [Agenda Paper AP7](#)), specifically, the IC concluded that such payments should be classified as investing cash flows if they relate to obtaining control of the business.

as operating or investing cash flows). View 3 is consistent with the [Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring](#), that is, that the classification follows the classification of the liability in the statement of financial position (similar to View 2, the initial activity, for example, the purchase of goods and services, is somewhat ignored for the purposes of classification).

87. Irrespective of the IASB's view, we think exploring whether to introduce timing as a determinant for classification might be challenging for the IASB to accomplish in a timely manner. If the IASB were to explore this, it would first need to specify what constitutes a 'deferred payment', which would be inherently subjective (for example, a payment might be deferred by ten days or more than a year).
88. In addition, introducing timing as a determinant might:
- (a) reduce comparability of the statement of cash flows—because similar transactions would be classified differently based on payment schedules;
 - (b) encourage structuring the statement of cash flows through payment terms; and
 - (c) have unintended consequences in other areas of the Standard (for example, for payments made upfront, such as lease prepayments).
89. We therefore recommend the IASB revisit this issue further after it has concluded its discussions on strengthening the existing disclosure requirements on non-cash transactions and other non-cash changes.

Cash flows for which classification depends on the principal revenue-producing activities

90. From the feedback it appears that sometimes a cash flow meets the definition of a category, but, depending on the principal revenue-producing activities of the entity, might also meet the definition of another category. Examples include payments for the acquisition of property by an entity that, as a main business activity, rents out property to others or the acquisition of plant and equipment by a lessor for which leasing is the principal revenue-producing activity (paragraph 32).

91. Paragraph 14 and paragraph 16(a) of IAS 7 state that payments to acquire property, plant and equipment are investing cash flows unless the payments are made to acquire assets held for rental to others that are subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment*—in which case the payments are operating cash flows. Hence, if the exception in paragraph 14 of IAS 7 does not apply (that is, if the entity does not, in the course of its ordinary activities, routinely sell items of property, plant and equipment that it has held for rental to others), an entity would classify such payments as investing cash flows. We acknowledge that significant judgement might be involved in determining whether an entity, as part of its ordinary activities, routinely sells property that it has held for rental to others. However, this assessment does not relate to IAS 7—rather, this assessment is made in applying IAS 16.
92. However, classification might be less clear for a lessor that purchases plant and equipment for which leasing is the principal revenue-producing activity—specifically, it might be unclear whether the principle in paragraph 11 of IAS 7 overrides the specific example in paragraph 16(a) of IAS 7 (which is that payments to acquire property, plant and equipment are investing cash flows). Consequently, we think the IASB should explore whether amending the principle in paragraph 11 of IAS 7 would address this issue (see also paragraphs 93–97).

Analysis on the principle for classifying cash flows

93. Based on the feedback received we observe that the principle for classifying cash flows in paragraph 11 of IAS 7 might be applied by entities:
- (a) to arrive at a conclusion on the classification of a cash flow if specific guidance is absent (for example, derivatives that economically hedge an underlying item for which the cash flows are operating cash flows); or
 - (b) to override specific guidance (for example, acquisition-related payments in a business combination).

94. We think there might be tension in applying the principle for classifying cash flows in paragraph 11 of IAS 7 (reproduced below) because:

- (a) the first sentence in paragraph 11 of IAS 7 states that an entity ‘presents its cash flows [...] in a manner which is most appropriate to its business’; while
- (b) the second sentence states that classification is ‘by activity’, consistent with the specific guidance in paragraphs 14–16 on how to classify cash flows from a particular activity (for example, the receipt of goods and services or the acquisition of property, plant and equipment)—that is, irrespective of the specific business of an entity, unless otherwise specified in IAS 7.

11 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

95. Paragraphs 14 and 15 of IAS 7 (reproduced below) include exceptions for when the classification differs depending on the specific business of an entity. The existence of the exceptions implies that an entity cannot override a specific example listed in IAS 7, unless explicitly permitted to classify the cash flows differently based on the specific business of the entity (notably, IAS 7 does not include a Basis for Conclusions for this part of the Standard).

14 Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash

flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

- 15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue producing activity of that entity.
96. We think making limited amendments to the principle for classifying cash flows might help entities apply the principle more consistently (paragraphs A15–A16 in Appendix A includes a suggestion for how the IASB could amend the principle).
97. Furthermore, we think the IASB could consider providing guidance that helps entities determine, for the purposes of classifying cash flows, what the underlying ‘activity’ is in cases that involve multiple activities that relate (or are connected) to each other. However, we will need to do more analysis on this before developing any potential solutions for this. For example, arguably, a supplier finance (or factoring) arrangement could be seen as involving more than one activity, specifically:
- (a) the purchase of goods (or the sale of goods); and
 - (b) the provision of finance.

Staff recommendations and question for the IASB

98. We think that some extent of standard setting is needed. Hence, we think the IASB should first consider standard setting before referring an issue to the IC. If, after further analysis of an issue, we conclude that the requirements in IAS 7 are generally sufficient, we will recommend referring the issue to the IC.
99. We recommend the IASB:

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- (a) explore solutions for the:
 - (i) classification of acquisition-related payments in a business combination;
 - (ii) classification and presentation of cash flows from derivatives;
 - (iii) classification and presentation of receipts of government grants; and
 - (iv) amending the principle for classifying cash flows in paragraph 11 of IAS 7 to help entities apply the principle more consistently;
 - (b) revisit the following issues after the IASB has concluded its discussions on strengthening the existing disclosure requirements on non-cash transactions and other non-cash changes:
 - (i) classification of payments that are deferred; and
 - (ii) classification and presentation of cash flows involving third-party finance providers.
100. If the IASB does not explore solutions for all issues there is a risk that some issues might not be addressed holistically. This risk arises because for some issues there is more than one underlying issue (for example, acquisition-related payments in a business combination that are deferred).
101. However, we think if the IASB were to develop solutions for the issues listed in paragraph 99(a), and possibly for the issues listed in paragraph 99(b), this would likely address much of the feedback received in a timely manner without creating unintended consequences in other areas of the Standard.

Question for the IASB	
1	Does the IASB agree with the staff recommendation in paragraph 99?

Appendix A—Potential solutions to address the issues raised by stakeholders

- A1. This appendix discusses potential solutions for the issues raised by stakeholders in classifying and presenting cash flows in the statement of cash flows. The purpose of this appendix is to demonstrate that we think there are potential and feasible ways in which the IASB could address the feedback received. The potential solutions discussed in this appendix are **not** recommended solutions. We will propose recommended solutions in a future IASB paper. In addition, any solutions included in a future due process document might be different after further analysis and IASB discussion.
- A2. This appendix discusses potential solutions for the following issues:
- (a) acquisition-related payments in a business combination (paragraphs A3–A7);
 - (b) cash flows when items relate to other items:
 - (i) cash flows from derivatives (paragraphs A8–A11); and
 - (ii) receipts of government grants (paragraphs A12–A14); and
 - (c) the principle for classifying cash flows (paragraphs A15–A17).

Acquisition-related payments in a business combination

- A3. The IASB could clarify the interaction between the guidance in paragraphs 16 and 39 of IAS 7 by clarifying that payments that relate to obtaining control of a business are investing cash flows to the extent they lead to the recognition of an asset.
- A4. Such clarification could be provided by amending paragraph 39 of IAS 7 in one of the following ways:
- (a) explaining in paragraph 39 of IAS 7 that payments would only be classified as investing cash flows to the extent they result in the recognition of an asset; or
 - (b) linking paragraph 39 of IAS 7 to paragraphs 37–38 of IFRS 3 *Business Combinations*, such that it becomes clear that only payments that form part of the consideration transferred are cash flows from investing activities (because they result in the recognition of the net assets acquired).

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- A5. Linking paragraph 39 of IAS 7 to paragraphs 37–38 of IFRS 3 would be similar to an approach the IC explored in 2011 for the classification of payments of deferred and contingent consideration in a business combination, which was to clarify that:
- (a) payments for deferred and contingent consideration shall be classified as investing activities to the extent that the amount was recognised as a financial liability (or financial asset) at the acquisition date; and
 - (b) payments for increases in the fair value of deferred and contingent consideration that, in accordance with paragraphs 45–46 of IFRS 3, are not measurement period adjustments and are recognised in profit or loss, shall be classified as operating activities.¹³
- A6. However, as explained in paragraph 51, it might be difficult for an entity to link specific payments to the assets acquired—meaning, for more complex transactions, any clarification provided on the interaction between paragraphs 16 and 39 of IAS 7 might not entirely remove the judgement involved in determining whether payments lead to the recognition of an asset.
- A7. In addition, applying paragraph B49 of IFRS 18 entities would generally classify expenses for contingent consideration in a business combination in the operating category of the statement of profit or loss. Hence, the IASB might also want to consider the requirements in IFRS 18 before deciding on how to proceed with this issue.

Cash flows when items relate to other items

Derivatives

- A8. The IASB could resolve the tension between the definition of investing activities and the specific guidance included in paragraph 16(g)–(h) of IAS 7 for cash flows from derivatives that economically hedge an underlying item for which the cash flows are operating cash flows by specifying how such cash flows should be classified. For

¹³ See [Agenda Paper AP9](#) and [Agenda Paper AP7](#) of the IC meetings in September and November of 2011. In 2011, the IC concluded that the issue is too broad to be resolved through the annual improvements process. Following broader discussions on IAS 7 and related classification issues in 2012 and 2013, the issue was not discussed further because the [2011 Agenda Consultation](#) did not identify the statement of cash flows as a priority.

example, the IASB could specify that cash flows from such derivatives should be classified as operating cash flows, which would more closely represent the underlying economics of the transaction.

- A9. However, the IASB might want to specify more broadly how to classify cash flows from derivatives that economically hedge an underlying. For example, the IASB could specify that the classification of cash flows from derivatives should generally follow the classification of the cash flows of the underlying item, which would:
- (a) build on the existing guidance in paragraph 16 of IAS 7 for cash flows from hedging instruments used for hedge accounting;¹⁴
 - (b) be similar to the guidance in IFRS 18 on the classification of economic hedges in paragraph B70 and paragraphs B72–B73.
- A10. If the IASB were to establish a principle for classifying cash flows from derivatives, it could remove the specific guidance in paragraph 16(g)–(h) of IAS 7 which specify, for economic hedges, that cash flows from derivatives are classified as investing activities unless:
- (a) they are held for dealing or trading purposes (cash flows are classified as operating activities); or
 - (b) the related cash flows are classified as financing activities (cash flows are classified as financing activities).
- A11. For cash flows from derivatives that relate to multiple underlying items (and for which the cash flows of the underlying items are classified in different categories), the IASB could develop guidance similar to that in IFRS 18 for income and expenses from derivatives that relate to multiple underlying items. Specifically, paragraph B70 and paragraphs B74–B75 of IFRS 18 require that payments or receipts that relate to multiple underlying items are classified as operating activities in the statement of profit or loss.

¹⁴ Paragraph 16 of IAS 7 states that, when a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Government grants

- A12. The IASB could specify that the classification of receipts of government grants follows the classification of the underlying asset, liability or expense to which the grant relates. Such an approach would be similar to the approach taken in the FASB's project [Proposed Accounting Standards Update on Government Grants \(Topic 832\)](#), which proposes to maintain the current principle to classify cash flows from government grants on the basis of the nature of the grant (that is, whether the government grant results from operating, investing, or financing activities).
- A13. Introducing a principle such that the classification of receipts of government grants follows the classification of the underlying asset, liability or expense is unlikely to resolve all issues as significant judgement might still be required in assessing which item(s) a government grant relates to. In addition, a government grant might be conditional on specific events occurring or not occurring (and might need to be repaid if specific conditions are not met). An alternative could be to specify the category in which receipts of government grants are classified as suggested by an ASAF member—for example, to specify that the category be 'operating activities' (see Appendix B). However, specifying the category might not appropriately reflect the underlying economics of the transaction.
- A14. The IASB could clarify how receipts of governments grants should be presented in the statement of cash flows (for example, require that receipts of government grants be presented on a gross basis). Such an approach would be similar to the presentation of cash flows from derivatives, which are presented on a gross basis (that is, the cash flows from derivatives are not 'netted against' the cash flows of the underlying item the derivative intends to (economically) hedge).

The principle for classifying cash flows

- A15. The IASB could amend paragraph 11 of IAS 7 to clarify that classification is by type of activity and does not depend on the specific business of an entity unless otherwise specified in IAS 7 (for example, the acquisition of property, plant and equipment or the receipt of goods and services).

A16. In addition, the IASB could consider whether to remove the first sentence in paragraph 11 of IAS 7 that refers to an entity presenting cash flows ‘in a manner which is most appropriate to its business’. Removing this sentence might result in entities being less inclined to override specific guidance in IAS 7 on the basis of their specific business.

A17. Paragraph 11 of IAS 7 is reproduced below.

- 11 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

Appendix B—Potential solutions suggested by stakeholders for classifying receipts of government grants

- B1. This appendix discusses potential solutions suggested by stakeholders for classifying receipts of government grants.
- B2. Specifically, one ASAF member suggested that mandating the category in which to classify receipts of government grants might be a practical approach to resolving the differences in classification observed in practice (for example, mandating that the category be ‘cash flows from operating activities’).
- B3. Another ASAF member said the [FASB’s project on government grants](#) showed that a principles-based approach to classification of such cash flows might be beneficial because of the various types of grants in practice.

Appendix C—Feedback on issues not discussed in this paper

C1. This appendix includes the feedback from stakeholders on issues not discussed in this paper (see also paragraph 2 on future papers), specifically the feedback on:

- (a) lease-related payments (paragraphs C2–C7);
- (b) income tax payments (paragraphs C8–C10); and
- (c) foreign exchange differences (paragraphs C11–C12).

Lease-related payments

C2. Some ASAF and IC members provided feedback on the classification of various lease-related payments, specifically:

- (a) payments related to a lease (paragraph C3);
- (b) payments related to in-substance purchases of assets (paragraphs C4–C5);
- (c) payments related to sale and leaseback arrangements (paragraph C6); and
- (d) lease prepayments (paragraph C7).

Payments related to a lease

C3. Some ASAF and IC members said the differences in classification between payments for the acquisition of an asset (investing cash flows) and lease payments (operating or financing cash flows) in the statement of cash flows continues to be raised as an issue by preparers and users because some think these payments should both be presented as investing cash flows. A few IC members also said some users would prefer entities, at inception of a lease, present a financing cash inflow and an investing cash outflow in the statement of cash flows (presentation of notional cash flows).

Payments related to in-substance purchases of assets

C4. A few IC members said if a lessee exercises an existing purchase option immediately after lease inception it was unclear whether the cash flows should be classified as:

- (a) investing cash flows (because the lease arrangement, in-substance, is similar to the outright purchase of an asset); or
- (b) financing cash flows (repayment of a modified lease obligation).

- C5. Similarly, a few IC members also said if, after lease inception, a lessee modifies a lease to include a purchase option that is then immediately exercised it was unclear whether the corresponding cash flows should be classified as an investing or financing cash flow (for the same reasons than outlined in paragraph C4).

Payments related to sale and leaseback arrangements

- C6. A few IC members said there is uncertainty on how to classify cash flows related to sale and leaseback arrangements where the transaction qualifies as a sale if the fair value of the consideration received for the sale is higher than the fair value of the underlying asset (that is, when additional financing is provided by the buyer-lessor). Specifically, they said it was unclear whether (and how) entities should split the consideration received for the purposes of the statement of cash flows into:
- (c) investing cash flows (for the sale of the underlying asset); and
 - (d) financing cash flows (for the additional financing provided).

Lease prepayments

- C7. A few IC members said lease prepayments are classified differently by entities, that is, some entities consider such payments to be a prepayment of their financing activities while others consider such payments to relate to their investing activities.

Income tax payments

- C8. Some ASAF, GPF and CMAC members provided feedback on the classification of income tax payments.
- C9. Specifically, some ASAF and GPF members said the IASB should consider whether to create a separate category for income tax payments. One GPF member said that having a separate category for income tax payments would allow entities to disclose operating cash flows by segment (which is currently not possible for many entities because the income tax payments related to operating activities are not readily identifiable from the system).
- C10. One CMAC member also said that, in some cases, they adjust for income tax payments that are classified as operating cash flows to arrive at a 'pure operating cash

flow’ for the purposes of their analysis. For example, they ‘reclassify’ income tax payments related to financing activities as financing cash flows because debt financing generally includes a tax shield, given that interest payments on debt are generally tax deductible.

Foreign exchange differences

- C11. ASAF and IC members also provided feedback on a range of issues involving foreign exchange differences. While no feedback related specifically to the classification of cash flows—because foreign exchange differences themselves are not cash flows—the feedback related to the presentation of foreign exchange differences in the statement of cash flows.
- C12. Specific issues mentioned by ASAF and IC members were differences in how entities present:
- (a) the translation effects from functional to presentation currency. Some entities present these effects as part of their cash flows from operating, investing and financing activities while other entities present these effects as a separate line item (for example, ‘effect of exchange rate changes’); and
 - (b) foreign exchange gains or losses from intercompany transactions with foreign subsidiaries that arise from using different exchange rates (transaction date rate versus weighted average rate). Similarly to translation effects from functional to presentation currency, some entities present these differences within cash flows from operating, investing, and financing activities while others present them as a separate line item.