
Accounting Standards Advisory Forum meeting

Date	October 2025
Project	Statement of Cash Flows and Related Matters
Topic	Classification of cash flows
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Objective of this session and next steps

Objective of this session

- To give ASAF members a project update
- To ask ASAF members for feedback on our initial analysis on classification issues identified during outreach

Next steps

- We plan to update ASAF members on our progress in analysing the classification issues at a future meeting
- That update will include presenting the findings from our request to ASAF members for written feedback on specific items (see Agenda Paper 3A)

This paper should be read in conjunction with Agenda Paper 3A, prepared for the October 2025 ASAF meeting

Questions for ASAF members

Question 1a)

For each example mentioned on [slide 12](#), do you agree with our initial assessment:

- a) regarding the underlying factors that might contribute to inconsistent application?
- b) that the classification for that example can generally be determined applying IAS 7?

If not, please explain why, providing specific fact patterns and supporting evidence from your jurisdiction.

Question 1b)

Are there any other factors that might contribute to inconsistent application?

Question 2)

Do you have any other comments or questions on our initial analysis?

Project update

Project update

- IASB met in May 2025 to discuss the topics to include and exclude in the project plan, the approach for topics related to financial institutions and a draft timeline (see [May 2025 IASB Update](#) for more details). IASB tentatively decided it will assess potential ways to improve:
 - the disaggregation of cash flow information in the financial statements
 - the reporting of information about non-cash transactions in the financial statements
 - the transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards
 - the consistent application of requirements to classify cash flows as operating, investing or financing
 - the consistent application of the definition of ‘cash equivalents’
- IASB met in July 2025 to discuss how the requirements for MPMs in IFRS 18 could be extended to also apply to cash flow measures. The IASB tentatively decided to extend some of the requirements for MPMs in IFRS 18 to cash flow measures (see [July 2025 IASB Update](#) for more details)

Project update (related to classification of cash flows)

- At the May 2025 IASB meeting, the IASB tentatively decided it will assess potential ways to improve the consistent application of the requirements to classify cash flows as operating, investing or financing
- IASB also decided it will not aim to redefine the operating, investing and financing categories in IAS 7
- The IASB expressed some interest in the staff conducting further analysis on whether the classification of some items for which stakeholders disagree with the classification in IAS 7 could be changed (e.g., for income tax payments)

Feedback on classification of cash flows

Feedback received during outreach with stakeholders from 2024

Feedback indicates that for some cash inflows or outflows...

... there is **inconsistent application** of the classification requirements in IAS 7 (leading to diversity in practice)

- Examples include:
 - Deferred and contingent consideration in a business combination
 - Government grants



Discussed today

... the classification requirements in IAS 7 are applied consistently, but **stakeholders disagree with the classification** (mainly preparers and users)

- Examples include:
 - Lease payments
 - Income tax payments



Discussed at a later meeting

Staff analysis on inconsistent application of classification requirements

Staff analysis of issues identified during outreach (1/2)

- Respondents' feedback on inconsistent application mostly focused on specific cash inflows or outflows rather than on the classification requirements themselves
- Additionally, the feedback varied in specificity—ranging from narrowly defined items (e.g., government grants related to assets) to broader concepts (e.g., variable consideration)
- Specifically, it is often not clear from the feedback:
 - what the underlying fact pattern is;
 - what is causing the issue; and
 - how pervasive the issue is
- This makes it difficult for us to assess whether the classification of the items identified during outreach can generally be determined applying the requirements in IAS 7

Staff analysis of issues identified during outreach (2/2)

For some of the items identified during outreach...

- We think we have a sufficient understanding of the underlying fact patterns to assess which factors might contribute to inconsistent application (see [slide 12](#))
- We think their classification can be determined applying the requirements in IAS 7

For other items...

- We need more information on the underlying fact patterns to be able to analyse whether the issues relate to:
 - inconsistent application of the classification requirements in IAS 7; or
 - application issues related to other IFRS Accounting Standards (e.g., identification of whether a sale and lease back arrangement qualifies as a sale applying IFRS 15)
- We would therefore appreciate if ASAF members could provide us with written feedback on the underlying fact patterns for some of these items (see [slide 13](#) and Agenda Paper 3A)

Items for which we think we have a sufficient understanding of the underlying fact patterns

Initial analysis identified four underlying scenarios that might contribute to inconsistent application of the requirements in IAS 7

Cash flows do not meet the definitions of investing or financing activities (resulting in a default classification as operating)	Classification of cash flows is linked to cash flow classification of related items	Initial transaction is a non-cash transaction	Classification of cash flows depends on the principal revenue-producing activities
<p>Example(s):</p> <ul style="list-style-type: none"> • Payments related to business combinations that do not form part of the consideration that leads to the recognition of the acquiree's net assets • Payments to unfunded defined benefit pension schemes • Variable consideration 	<p>Example(s):</p> <ul style="list-style-type: none"> • Payments related to derivatives and hedges • Receipt of government grants 	<p>Example(s):</p> <ul style="list-style-type: none"> • Payments related to the purchase of an asset on deferred payment terms 	<p>Example(s):</p> <ul style="list-style-type: none"> • Acquisition of a long-term asset if lessor's principal revenue-producing activities are not leasing
<ul style="list-style-type: none"> • We think the classification of these payments can generally be determined applying IAS 7 	<ul style="list-style-type: none"> • We think the classification of these payments can generally be determined applying IAS 7 (i.e., their classification should follow the classification of the cash flows of the underlying asset, liability or expense) 	<ul style="list-style-type: none"> • Purchase of an asset on deferred payment terms is initially a non-cash transaction • When a payment is made it might not always be clear whether payment relates to acquisition of an asset or repayment of a liability 	<ul style="list-style-type: none"> • We think it would generally be clear whether an activity is part of the 'principal revenue-producing activities' of an entity

Items for which we require further information*

Item	Source of feedback
Cash flows related to supply chain financing arrangements	Items mentioned during outreach with ASAF (for which we would appreciate written feedback)
Receipts and payments related to factoring	
Foreign exchange differences	
Receipts from a sale and lease back arrangement where the transaction qualifies as a sale	
Receipts and payments related to derivatives structured as collateralised-to-market	
Cash flows related to the in-substance purchase of an asset vs. a lease	Items mentioned during outreach with other stakeholders (for which we would also appreciate written feedback, if possible)
Cash flows related to shares withheld on employee share options	
Cash flows related to providing financing to customers	
Cash flows related to assets held for rental	

* Agenda Paper 3A explains in further detail what information we are seeking

Next steps in our analysis

- Feedback from ASAF members (on items for which we need more information on the underlying fact patterns) will help us better understand whether we have correctly identified the underlying scenarios that might contribute to inconsistent application of the requirements in IAS 7
- We will then assess whether any of the issues raised during outreach require action. Specifically, we will consider whether:
 - **no action is needed**, meaning preparers should be able to classify cash flows consistently by applying IAS 7;
 - **further action might be needed**, such as:
 - limited standard setting (e.g., minor wording amendments);
 - referring the issue to the IFRS Interpretations Committee; or
 - providing illustrative examples to support consistent application

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