
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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Introduction

1. As explained in Agenda Paper 3, we would appreciate if ASAF members could provide us with written feedback on some of the items ASAF members previously identified as having inconsistent application of the classification requirements in IAS 7 *Statement of Cash Flows*.¹ If possible, we would also appreciate feedback on some other items for which other stakeholders identified as having inconsistent application.
2. This paper is structured as follows:
 - (a) items identified by ASAF members for which we require further information (paragraphs 3–18);
 - (b) items identified by other stakeholders for which we require further information (paragraphs 19–32); and
 - (c) practical arrangements (paragraphs 33–34).

¹ This paper should be read in conjunction with Agenda Paper 3, prepared for this meeting.

Items identified by ASAF members for which we require further information

3. This section lists the items for which we require further information from ASAF members:
 - (a) Cash flows related to supply chain financing arrangements (paragraphs 6–9).
 - (b) Receipts and payments related to factoring (paragraphs 10–12).
 - (c) Foreign exchange differences (paragraphs 13–14).
 - (d) Receipts from a sale and lease back arrangement where the transaction qualifies as a sale (paragraphs 15–16).
 - (e) Receipts and payments related to derivatives structured as collateralised-to-market (paragraphs 17–18).
4. For each item, we ask you to provide us with written feedback on:
 - (a) which fact patterns are giving rise to inconsistent application in your jurisdiction and how are the requirements in IAS 7 being applied to those fact patterns;
 - (b) whether the item corresponds to any of the four underlying scenarios identified by staff in their initial analysis that might contribute to inconsistent application of the requirements in IAS 7 (see slide 12 of Agenda Paper 3), specifically:
 - (i) cash flows do not meet the definitions of investing or financing activities (resulting in a default classification as operating);
 - (ii) classification of cash flows is linked to cash flow classification of related items;
 - (iii) initial transaction is a non-cash transaction; and
 - (iv) classification of cash flows depends on the principal revenue-producing activities;
 - (c) how pervasive the issue is in your jurisdiction; and

- (d) how you think inconsistent application could be reduced for that item.
5. Please be as specific as possible in your written response. Where relevant, please include references to specific paragraphs in IAS 7 (or other IFRS Accounting Standards).

Cash flows related to supply chain financing arrangements

6. There is no specific guidance in IAS 7 on how to classify cash flows that relate to supply chain financing arrangements. Rather, paragraph 14(c) of IAS 7 lists ‘cash payments to suppliers for goods and services’ as cash flows from operating activities and paragraph 17(d) of IAS 7 lists ‘cash repayments of amounts borrowed’ as cash flows from financing activities.
7. However, the [Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring](#), published in December 2020 explains that payments related to supply chain financing arrangements can be classified either as cash flows from operating activities or cash flows from financing activities, depending on the nature of the underlying liability.
8. Specifically, the Agenda Decisions explains that if the entity considers the related liability to be a trade or other payable that is part of the working capital used in the entity’s principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows. In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its statement of cash flows.
9. From the feedback received, it is unclear to us whether:
- (a) there is inconsistent application of the classification requirements in IAS 7 (including inconsistent application of the Agenda Decision published in December 2020); or

- (b) the issue relates to something other than classification of the cash flows (for example, whether the issue relates to how to determine whether the transaction is a supplier finance arrangement).

Receipts and payments related to factoring

- 10. Similar to supply chain financing arrangements, there is no specific guidance in IAS 7 on how to classify cash flows that relate to factoring (see paragraph 6).
- 11. Examples of possible fact patterns in a factoring arrangement are:
 - (a) the entity has derecognised the receivable and the customer pays any outstanding amounts to the factor (that is, there is a single cash inflow to the entity from the factor);
 - (b) the entity has *not* derecognised the receivable and the customer pays any outstanding amounts to the entity, which the entity subsequently passes on to the factor (that is, there is a cash inflow to the entity from the factor, a cash inflow to the entity from the customer and a cash outflow from the entity to the factor); or
 - (c) the entity has *not* derecognised the receivable and the customer pays any outstanding amounts to the factor (that is, there is a single cash inflow to the entity from the factor).
- 12. From the feedback received, it is unclear to us for which specific fact patterns inconsistent application of the classification requirements in IAS 7 was observed.

Foreign exchange differences

- 13. It is unclear to us why ‘foreign exchange differences’ were mentioned by ASAF members as an example for inconsistent application of the classification requirements in IAS 7 because foreign exchange differences are not themselves cash flows but are

presented separately in the statement of cash flows in accordance with paragraph 28 of IAS 7.

14. Specifically, it is unclear to us whether the feedback relates to foreign exchange differences as a result of:
- (a) translation of receipts or payments from the transaction currency into the functional currency; or
 - (b) translation of amounts from the functional currency to the presentation currency.

Receipts from a sale and lease back arrangement where the transaction qualifies as a sale

15. Applying IAS 7, preparers should generally be able to appropriately classify receipts from a sale and lease back arrangement as cash flows from investing activities if the transaction qualifies as a sale in accordance with IFRS 15 *Revenue from Contracts with Customers*.
16. From the feedback received, it is unclear to us whether:
- (a) there is inconsistent application of the classification requirements in IAS 7; or
 - (b) the issue relates to something other than classification of the cash flows (for example, whether the issue relates to how to determine whether the transaction qualifies as a sale).

Receipts and payments related to derivatives structured as collateralised-to-market

17. [Agenda Decision Classification of Cash Flows related to Variation Margin Calls on ‘Collateralised-to-Market’ Contracts \(IAS 7 Statement of Cash Flows\)](#), published in February 2025 concluded—after evidence gathering by the IFRS Interpretations Committee—that the issue is not widespread.

18. Accordingly, we assume that the feedback provided by ASAF members in 2024 has already been considered, and no further action is required.

Items identified by other stakeholders for which we require further information

19. If possible, we would also appreciate feedback on other items for which feedback from other stakeholders was that there is inconsistent application of the classification requirements in IAS 7. Those items are:
- (a) Cash flows related to the in-substance purchase of an asset vs. a lease (paragraphs 20–22).
 - (b) Cash flows related to shares withheld on employee share options (paragraphs 23–25).
 - (c) Cash flows related to providing financing to customers (paragraphs 26–30).
 - (d) Cash flows related to assets held for rental (paragraphs 31–32).

Cash flows related to the in-substance purchase of an asset vs. a lease

20. Paragraph 16(a) of IAS 7 lists ‘cash payments to acquire property, plant and equipment, intangibles and other long-term assets’ as cash flows from investing activities and paragraph 17(e) of IAS 7 lists ‘cash payments by a lessee for the reduction of the outstanding liability relating to a lease’ as cash flows from financing activities.
21. Applying IAS 7, preparers should generally be able to appropriately classify cash flows related to an in-substance purchase of an asset and cash flows related to a right-of-use asset (and corresponding lease liability) in accordance with IFRS 16 *Leases* as either cash flows from investing activities or cash flows from financing activities, applying paragraph 16(a) and paragraph 17(e) of IAS 7.
22. From the feedback received, it is unclear to us whether:

- (a) there is inconsistent application of the classification requirements in IAS 7; or
- (b) the issue relates to something other than classification of the cash flows (for example, whether the issue relates to how to determine whether the transaction is an in-substance purchase of an asset or a lease in accordance with IFRS 16).

Cash flows related to shares withheld on employee share options

- 23. There is no specific guidance in IAS 7 on how to classify cash flows related to shares withheld on employee share options. Rather, paragraph 17(b) of IAS 7 lists ‘cash payments to owners to acquire or redeem the entity’s shares’ as cash flows from financing activities.²
- 24. Applying IAS 7, preparers should generally be able to appropriately classify cash flows related to *cash-settled* share-based payment transactions as cash flows from financing activities.
- 25. From the feedback received, it is unclear to us whether:
 - (a) there is inconsistent application of the classification requirements in IAS 7; or
 - (b) the issue relates to something other than classification of the cash flows (for example, whether the issue relates to the distinction between cash-settled share-based payment transactions and equity-settled share-based payment transactions in accordance with IFRS 2 *Share-based Payment*).

Cash flows related to providing financing to customers

- 26. It is unclear to us whether the feedback relates to entities whose principal revenue-producing activities are ‘providing financing to customers’ or to other entities.

² In addition, paragraph 14(f) of IAS 7 lists ‘cash payments or refunds of income taxes’ as cash flows from operating activities (unless they can be specifically identified with financing and investing activities).

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27. Operating activities are defined as the principal revenue-producing activities of the entity and other activities that are not investing or financing activities (paragraph 6 of IAS 7). Paragraph 14 of IAS 7 states that cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity.
28. In contrast, paragraph 16(e) and paragraph 16(f) of IAS 7 lists ‘cash advances and loans made to other parties (other than advances and loans made by a financial institution)’ and ‘cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution)’ as cash flows from investing activities.
29. Applying IAS 7, preparers should generally be able to appropriately classify cash flows related to providing financing to customers as either cash flows from operating activities or cash flows from investing activities.
30. We understand that issues might have arisen in the past regarding the classification of interest paid or interest received because of the classification options included in IAS 7. These options have been removed with IFRS 18 *Presentation and Disclosure in Financial Statements*. Accordingly, we assume that no further action is required regarding the classification of interest paid or interest received.

Cash flows related to assets held for rental

31. Paragraph 14 of IAS 7 states that 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 and that cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.
32. Applying IAS 7, preparers should generally be able to appropriately classify cash flows related to assets held for rental as cash flows from operating activities.

Practical arrangements

Due date for submitting written feedback

33. We ask ASAF members to kindly provide us with their written feedback by **3 November 2025**. We ask you to send your responses to Juliane-Rebecca Upmeier at jrupmeier@ifrs.org.

Contact

34. Please do not hesitate to contact **Juliane-Rebecca Upmeier** (jrupmeier@ifrs.org) should you have any questions related to our request for written feedback.