
IFRS Interpretations Committee

Date	16 September 2025
Project	Statement of Cash Flows and Related Matters
Topic	Classification of cash flows
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Objective of this session

- To give IC members a project update
- To ask IC members for feedback on:
 - our initial analysis on the classification issues identified during outreach; and
 - specific items for which feedback was that there is inconsistent application of the classification requirements in IAS 7

Questions for IC 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?

Question 1b) Are there any other factors that might contribute to inconsistent application?

Question 2) For the items listed on [slide 13](#), please provide us with feedback on:

- a) which fact patterns are giving rise to inconsistent application and how are the requirements in IAS 7 being applied to those fact patterns; and
- 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 (see [slide 12](#))

Question 3) Do you have any feedback on the items raised by other stakeholders (see [slide 14](#))?

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

... 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 today

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 IC members could provide us with feedback on the underlying fact patterns for some of these items (see slides 13–14)

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 raised by IC members for which we require further information from IC members

Item	Staff analysis
Receipts and payments related to factoring	<u>Slide 17 (Appendix A)</u>
Foreign exchange differences	<u>Slide 18 (Appendix A)</u>
Cash flows related to the in-substance purchase of an asset vs. a lease	<u>Slide 19 (Appendix A)</u>
Cash flows related to assets held for rental	<u>Slide 20 (Appendix A)</u>

Items raised by other stakeholders for which we would also appreciate feedback from IC members (if possible)

Item	Staff analysis
Cash flows related to supply chain financing arrangements	<u>Slide 21 (Appendix A)</u>
Receipts from a sale and lease back arrangement where the transaction qualifies as a sale	<u>Slide 22 (Appendix A)</u>
Cash flows related to shares withheld on employee share options	<u>Slide 23 (Appendix A)</u>
Cash flows related to providing financing to customers	<u>Slide 24 (Appendix A)</u>

Next steps in our analysis

- Feedback from IC members and other stakeholders 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

Appendix A—Items for which we require further information

Receipts and payments related to factoring

- There is no specific guidance in IAS 7 on how to classify cash flows that relate to factoring
- Examples of possible fact patterns in a factoring arrangement are:
 - 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);
 - 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
 - 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)
- 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

- It is unclear to us why ‘foreign exchange differences’ were mentioned by stakeholders 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
- Specifically, it is unclear to us whether the feedback relates to foreign exchange differences as a result of:
 - translation of receipts or payments from the transaction currency into the functional currency; or
 - translation of amounts from the functional currency to the presentation currency

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

- 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
- 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
- From the feedback received, it is unclear to us whether:
 - there is inconsistent application of the classification requirements in IAS 7; or
 - 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 assets held for rental

- 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
- 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

Cash flows related to supply chain financing arrangements

- 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
- 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
- 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
- From the feedback received, it is unclear to us whether:
 - there is inconsistent application of the classification requirements in IAS 7 (including inconsistent application of the Agenda Decision published in December 2020); or
 - 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 from a sale and lease back arrangement where the transaction qualifies as a sale

- Applying paragraph 16(b) of 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*
- From the feedback received, it is unclear to us whether:
 - there is inconsistent application of the classification requirements in IAS 7; or
 - 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)

Cash flows related to shares withheld on employee share options

- 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 activities¹
- 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
- From the feedback received, it is unclear to us whether:
 - there is inconsistent application of the classification requirements in IAS 7; or
 - 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*)

¹ 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)

Cash flows related to providing financing to customers

- 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
- 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
- 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
- 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
- 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

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