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## Capital Markets Advisory Committee and Global Preparers Forum

Date	18 June 2026
Project	Statement of Cash Flows and Related Matters
Topic	Classification—Progress update and acquisition-related payments
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## Purpose of this session

The purpose of this session is:

- to provide a progress update on work to improve the consistent application of requirements to classify cash flows as operating, investing or financing; and
- to ask CMAC and GPF members for views on the classification of **acquisition-related payments in a business combination\***

The input from members will contribute to the IASB decisions on:

- **improving the consistent application** of requirements for classifying cash flows as operating, investing and financing.

\* At the December 2025 IASB meeting, the Board tentatively decided to explore developing requirements for the classification of acquisition-related payments in a business combination—to facilitate consistent application

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## Summary of questions

### Acquisition related payments (see related example slides 5–6)

#### **Question 1 (slide 16)—For deferred and contingent payments:**

- a) What classification outcome(s) provides the most useful information and why?
- b) Does the timing of payment change what is most useful? (for example, if it is most useful for contingent consideration paid the year after acquisition to be classified as an investing activity, is that also true for the same payment made three years after purchase)
- c) Would there be challenges to splitting cash flows for contingent (or deferred) consideration between categories if that were considered the most useful outcome?

#### **Question 2 (slide 18)—For payments of pre-existing debt:**

- a) Which classification of pre-existing debt (financing or investing) provides better information and why?
- b) Does the reason for the payment change what is most useful? (for example, does a payment being required or voluntary change the most useful presentation)?

#### **Question 3 (slide 20)—For other payments:**

- a) Which classification of other payments (operating or investing) provides better information and why?
- b) Are there challenges in identifying the relevant payments?

### Progress update on classification of cash flows

**Question 4 (slide 21)—Do you have any questions or comments on the topics being explored in the project related to classifying cash flows (see slides 6–8)?**

## Example of acquisition related cash flows

**Facts:**\* Company A acquires Company B on 30 June 20X2. Consideration is comprised of:

Form of consideration	Amount in CU	Notes
Cash	5,000	
Equity instruments (100,000 ordinary shares)	4,000	This is a non-cash transaction; would be disclosed in the financial statements (see paragraph 43 of IAS)
Contingent consideration arrangement	2,000	<b>Discussed on slide 15</b>
<b>Total consideration transferred</b>	<b>11,000</b>	

**Selected costs, recognised amounts of identifiable assets acquired and liabilities assumed and subsequent changes:**

Type of cost / Item acquired	Amount in CU	Notes
Transaction costs	550	<b>Discussed on Slide 19</b>
Cash	1,000	
Pre-existing debt acquired	(3,500)	<b>Discussed on slide 17</b>
Total identifiable net assets	11,000	assume no goodwill or non-controlling interests
Change in fair value of contingent consideration in 20X3	1,000	<b>Discussed on slide 15</b>

\*Facts adapted from the fact pattern set out in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 *Business Combinations*

## Statement of Cash Flows Example (for fact pattern on slide 5)

**In the year of the business combination (year ended 20X2):**

Line item	Amount in CU	Explanation and classification
Transaction costs	550	Paid at acquisition ( <b>operating</b> or <b>investing</b> )
Acquisition of business, net of cash acquired	4,000	Cash paid (5,000) less cash acquired (1,000) ( <b>investing</b> )
Repayment of pre-existing debt acquired	3,500	Paid at acquisition ( <b>investing</b> or <b>financing</b> )

**In subsequent years (eg year ended 20X3 or later):**

Line item	Amount in CU	Explanation and classification
Payment of contingent consideration	2,000	Amount included in total consideration transferred on the acquisition date ( <b>investing</b> or <b>financing</b> )
Payments of contingent consideration	1,000	Amount in excess of total consideration transferred on the acquisition date ( <b>investing</b> , <b>financing</b> or <b>split</b> )

Note contingent consideration from the acquisition is likely a single payment at a future date determined in the purchase agreement. This might be at a date beyond the year after the purchase. The classification of payment might not be apparent in the financial statements as it might be aggregated with other cash flow items (including contingent payments from other acquisitions)

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# Progress update on classification of cash flows



## Overview of the project

### Objective

Assess potential ways to improve the requirements of *IAS 7 Statement of Cash Flows* in response to feedback on the Third Agenda Consultation and initial project research

### Targeted improvements for:

- strengthening the link between the statement of cash flows and other parts of the financial statements
- specifying the content and location of information about non-cash transactions and about non-cash changes in specified assets and liabilities
- extending the management-defined performance measure requirements in IFRS 18 to also include cash flow measures
- Improving the consistent application of requirements to classify cash flows as operating, investing or financing and of the definition of cash equivalents

Subject of this meeting



The IASB is also considering the applicability of the statement of cash flows and any possible improvements for financial institutions

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## Progress on classification

- The IASB has tentatively decided to explore developing requirements to improve the **consistent application** of the classification requirements, including exploring requirements:

- to classify **acquisition-related payments in a business combination**;
- to classify and present **cash flows from derivatives**; and
- to classify and present **receipts of government grants**

Subject of this meeting

Discussed at the March 2026 CMAC and GPF meetings

- The requirements are expected to improve consistency in classification of transactions which lack specific guidance and for which many stakeholders identified diversity

- The IASB has also tentatively decided to propose requiring **presentation of cash flows from discontinued operations** in a **separate category** of the statement of cash flows

Discussed at the November 2025 CMAC and GPF meetings

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## Plan for classification

- To improve classification more generally the IASB has also tentatively decided to **explore amending the principle for classifying cash flows** in paragraph 11 of IAS 7 (see appendix slide 23) to help entities apply the principle more consistently
- **After** the IASB has concluded its discussions on strengthening the disclosure requirements on **non-cash transactions** and **other non-cash changes**, the IASB will revisit whether requirements are necessary for:
  - classifying **deferred payments**; and
  - classifying and presenting cash flows **involving a third-party finance provider**

- Following IASB discussions on the Post-implementation Review of IFRS 16 Leases:
  - the IASB will explore requiring **disclosure of the components of the total cash outflow for leases** together with the line item in the statement of cash flows in developing possible requirements for the **disaggregation** of cash flow information
  - the staff have considered feedback on **classification of lease related cash flows** and lack of comparability between leasing and borrowing and purchasing assets in developing potential requirements for information about **non-cash transactions**
  - the IASB is not exploring changes to the classification requirements for lease related cash flows

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# Acquisition-related payments



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## Feedback from stakeholders on acquisition related payments

- The IASB conducted specific outreach to better understand the challenges to classifying cash flows for acquisition-related payments, including discussions with the IFRS Interpretations Committee (IC) and National Standard Setters (ASAF)
- Many ASAF, IC and GPF members said acquisition-related payments in a business combination are classified differently by entities and provided specific examples
- Feedback on the topic from CMAC was limited—one reason being that it is sometimes difficult to determine whether entities have classified (or presented) specific cash flows differently to other entities solely from an analysis of the statement of cash flows

### Acquisition-related payments

include:

1. payments of deferred and contingent consideration (**Slide 15**);
2. repayments of pre-existing debt by the acquirer (**Slide 17**); and
3. other acquisition-related payments (**Slide 19**).

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## Current requirements

- The aggregate cash flows arising from ‘**obtaining or losing control**’ of subsidiaries or other businesses are presented separately and classified as **investing activities** (paragraph 39 of IAS 7)
- Only expenditures that result in a **recognised asset** in the statement of financial position are eligible for classification as investing activities (paragraph 16 of IAS 7)
- The current Standard does not include requirements on how to determine which payments arise from ‘obtaining control’ of businesses
- The **consideration transferred** in a business combination is the sum of the acquisition-date fair values of the assets transferred by the acquirer (including contingent consideration), the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer (paragraphs 37–40 of IFRS 3)

See Slides 23–24 for excerpts from  
*IAS 7 Statement of Cash Flows*

See Slides 25–27 for excerpts from  
*IFRS 3 Business Combinations*

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## Problem to be solved

We identified in our outreach that different classifications result from different judgements about the application of, and interaction between, the requirements for an acquisition related cash flow to:

### Arise from ‘obtaining or losing control’

- Sometimes judgement is required about whether an acquisition-related payment relates to ‘obtaining control’; and
- Sometimes companies interpret the requirement relating to ‘obtaining control’ as one that overrides other requirements for classifying cash flows

### Relates to a recognised asset

- Sometimes judgement is required about whether all, or part of, an acquisition-related payment relates to a recognised asset (investing activity), or does not relate to a recognised asset (operating activity or financing activity)

The following slides provide examples of how these judgements can result in similar acquisition-related payments being classified differently in the statement of cash flows

# 1. Payments of deferred and contingent consideration

We understand from our outreach that companies classify payments of **deferred and contingent consideration** in different ways for the following reasons:

<b>Investing activities</b>	<b>Financing activities</b>	<b>A mix of investing, financing and operating*</b>
<p>Because cash flows are considered to represent payments for <b>obtaining control</b></p>	<p>Because payments are considered to represent <b>repayment of a liability</b> (rather than 'arising from obtaining control')</p>	<p>Part of the cash flow (consideration transferred applying IFRS 3) as an <b>investing activity</b>, because it is considered to represent a payment for <b>obtaining control</b></p> <p>Part of the cash flow (subsequent changes in value) as a <b>financing activity</b> because it is considered to represent payment for the <b>time value</b> of later payment</p> <p>Part of the cash flow (subsequent changes in value) as an <b>operating activity</b> because it is considered to represent <b>updates to current conditions or estimates</b></p>

\*Applying IFRS 18, gains or losses arising on the subsequent remeasurement of contingent consideration is classified in the operating category of the statement of profit or loss

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## Questions to members:

### Question 1: For deferred and contingent payments:

#### For CMAC and GPF members

- a) What classification outcome(s) provides the most useful information and why?
- b) Is a specific classification important for the amounts included in the consideration transferred applying IFRS 3?
- c) Does the timing of payment change what is most useful? (for example, if it is most useful for contingent consideration paid the year after acquisition to be classified as an investing activity, is that also true for the same payment made three years after purchase)

#### For GPF members

- c) Would there be challenges to splitting cash flows for contingent (or deferred) consideration between categories if that were considered the most useful outcome?

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## 2. Repayments of pre-existing debt by the acquirer

- In some business combinations a purchaser will repay **pre-existing debt** of the company being purchased directly to the bank at the acquisition date. This might be done ‘voluntary’ (agreed to as part of the deal) or ‘required’ because a clause in the debt agreement requires immediate repayment when there is a change of control
- Because this payment does **not** form part of the **consideration paid** it can be classified differently depending on a company’s judgement, for example:
  - one company might judge that the payment ‘arises from obtaining control’ and classify it as an **investing activity**
  - another company might judge the payment does not arise from obtaining control because it is the repayment of debt agreed to be paid and is instead a **financing activity**
- If the debt had been acquired as part of the net assets and liabilities, its later repayment would be classified as a **financing activity** of the combined entity

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## Questions to members:

### Question 2: For payments of pre-existing debt:

#### For CMAC and GPF members

- a) Which classification of pre-existing debt (financing or investing) provides better information and why?
- b) Does the reason for the payment change what is most useful (for example, does a payment being required or voluntary change the most useful presentation)?

#### For GPF members

- c) Are there any practical considerations to developing requirements that would specify the classification of payments of pre-existing debt?

### 3. Other acquisition-related payments

We understand from our outreach that some companies classify **other acquisition-related payments\***, such as transaction costs or payments for post-acquisition services (for example, fees for accountants, auditors, lawyers or brokers) in different ways.

Investing activities	Operating activities
<p>Some judge the payments as arising from <b>obtaining control</b> of a business and that this overrides the requirement for expenditures to <b>result in the recognition of an asset</b>. Some also argue classifying such payments <b>as operating cash outflows does not faithfully reflect</b> the economic substance of the transaction</p>	<p>Some classify the payments as operating by default because they do not arise from expenditures that <b>result in the recognition of an asset</b> and do <b>not relate to financing</b>.</p>

\*Applying IFRS 18, incremental expenses directly attributable to the acquisition and disposal of an asset (for example, transaction costs and costs to sell the assets) are classified in the investing category of the statement of profit or loss

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## Questions to members:

### Question 3: For other payments:

#### For CMAC and GPF members

- a) Which classification of other payments (operating or investing) provides better information and why?

#### For GPF members

- c) Are there challenges in identifying the relevant payments?

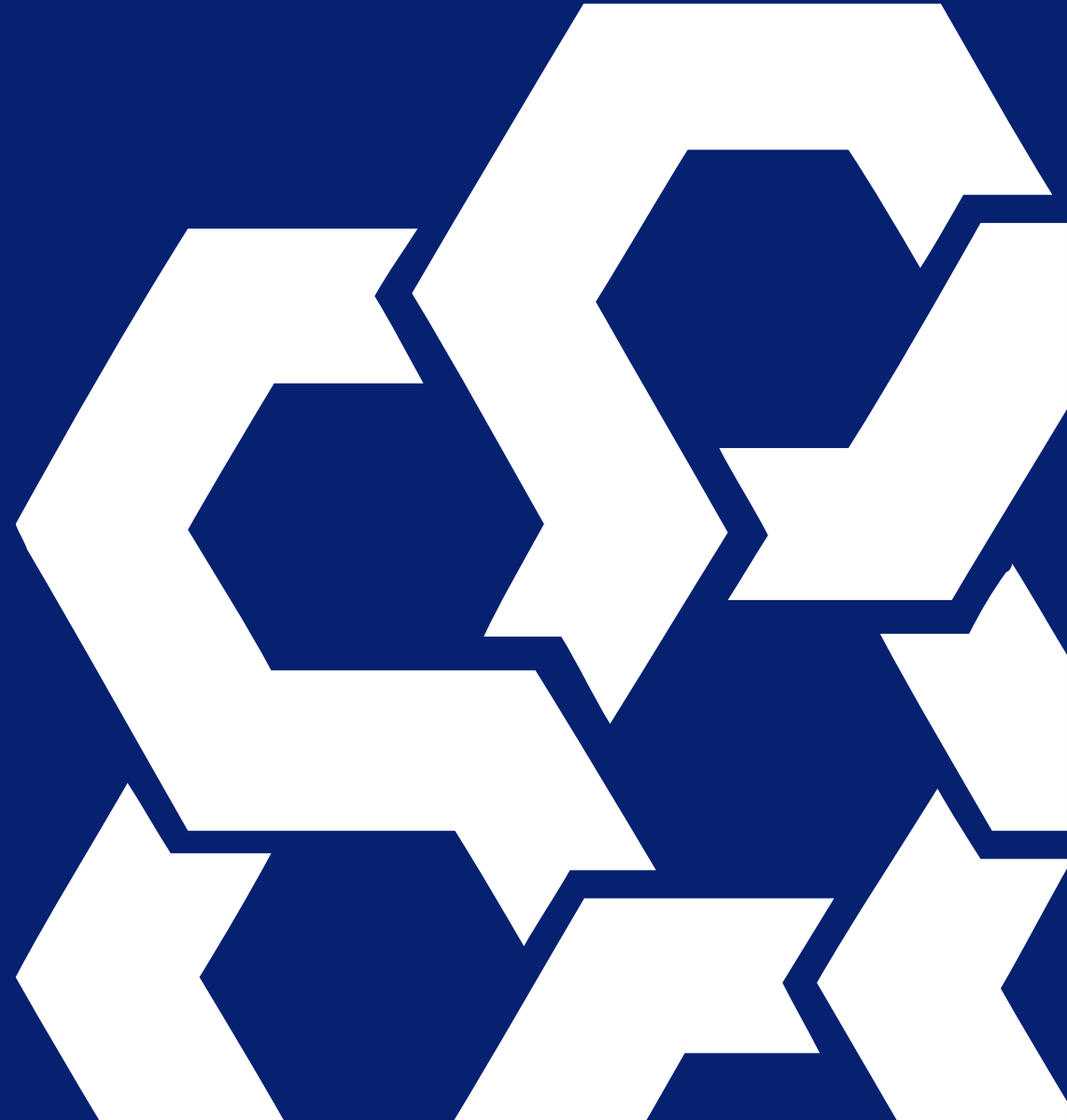
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## Questions to members:

**Question 4:** Do you have any questions or comments on the topics being explored in the project related to classifying cash flows (see slides 8–10)?

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# Appendix: Selected excerpts from current IFRS Accounting Standards



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## Excerpts from IAS 7 *Statement of Cash Flows*

### Presentation of a statement of cash flows

#### Paragraph 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.

### Investing Activities

#### Paragraph 16 [emphasis added]

The separate presentation of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. **Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.**

Examples of cash flows arising from investing activities are:

- a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment.

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## Excerpts from IAS 7 (continued)

### Changes in ownership interests in subsidiaries and other businesses

#### Paragraph 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.

#### Paragraph 40

An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

- a) the total consideration paid or received;
- b) the portion of the consideration consisting of cash and cash equivalents;
- c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
- d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

#### Paragraph 41

The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

#### Paragraph 42 [emphasis added]

The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses **is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of** as part of such transactions, events or changes in circumstances.

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## Excerpts from IFRS 3 *Business Combinations*

### Consideration transferred

#### Paragraph 37 [emphasis added]

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. (However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with paragraph 30 rather than at fair value.) **Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.**

#### Paragraph 38

The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a business of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in profit or loss. However, sometimes the transferred assets or liabilities remain within the combined entity after the business combination (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in profit or loss on assets or liabilities it controls both before and after the business combination.

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## Excerpts from IFRS 3 (continued)

### Contingent consideration

#### Paragraph 39

The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 37). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

#### Paragraph 40

The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 provides guidance on the subsequent accounting for contingent consideration.

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## Excerpts from IFRS 3 (continued)

### Measurement period

#### Paragraph 45

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. ...

#### Paragraph 46

The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this IFRS:

- (a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
- (b) the consideration transferred for the acquiree (or the other amount used in measuring goodwill);
- (c) in a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and
- (d) the resulting goodwill or gain on a bargain purchase.

### Contingent consideration

#### Paragraph 58

Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. ...

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