
IASB® meeting

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Project	Statement of Cash Flows and Related Matters
Topic	Classification and presentation of cash flows related to derivatives and government grants
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Objective of the paper

1. At its [December 2025 meeting](#), the International Accounting Standards Board (IASB) tentatively decided to explore developing requirements for the classification and presentation of cash flows in several areas.
2. The objective of this paper is to discuss potential requirements for the classification and presentation of cash flows in two of those areas, derivatives and government grants, and to ask the IASB whether it agrees with our recommendations.
3. Depending on the tentative decisions the IASB makes at this meeting and the feedback from the IASB on this paper, we plan to discuss disaggregation of cash flows related to derivatives and receipts of government grants related to income together with consideration of other specific disaggregated cash flow information in a future paper.

Summary of staff recommendations

4. We recommend the IASB proposes to add requirements specifying that:

Cash flows from derivatives

- (a) an entity classifies cash flows from a derivative it uses to manage identified risks (not designated in a hedging relationship applying IFRS 9 *Financial*

Instruments) in the same manner as the cash flows of the item(s) whose identified risks are being managed;

- (b) an entity classifies cash flows from a derivative it uses to manage identified risks (not designated in a hedging relationship applying IFRS 9) as operating activities if classifying those cash flows in the same manner as the cash flows of the item(s) whose identified risks are being managed involves undue cost or effort; and
- (c) an entity classifies cash flows from derivatives it does not use to manage identified risks:
 - (i) in the financing category, if the derivative relates to a transaction that involves only the raising of finance; and
 - (ii) in the operating category, if the derivative does not relate to a transaction that involves only the raising of finance.

Receipts of government grants

- (d) an entity classifies receipts of government grants in the same manner as the cash flows of the asset, liability or expense to which the grant relates (the related items);
- (e) an entity classifies receipts of government grants in one of two ways if it is impracticable to classify those cash flows in the same manner as the cash flows of the related items—namely:
 - (i) as investing activities for a ‘grant related to assets’ (as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*); and
 - (ii) as operating activities for a ‘grant related to income’ (as defined in IAS 20—that is, a grant other than one related to assets); and
- (f) an entity presents receipts of government grants related to assets on a gross basis—that is, cash flows received from grants related to assets and payments

for the related items would be presented as separate items in the statement of cash flows.

Structure of the paper

5. This paper is structured as follows:
 - (a) [background](#) (paragraphs 7–9);
 - (b) [cash flows from derivatives](#) (paragraphs 10–38); and
 - (c) [receipts of government grants](#) (paragraphs 39–72).
6. The [Appendix](#) to this paper provides background information about the accounting for government grants.

Background

7. At its [May 2025 meeting](#), the IASB tentatively decided, among other things:
 - (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 Statement of Cash Flows*; and
 - (c) to not develop specific requirements for offsetting cash flows.
8. At its [December 2025 meeting](#), the IASB tentatively decided, among other things, to explore:
 - (a) developing requirements for the classification and presentation of cash flows from derivatives; and
 - (b) developing requirements for the classification and presentation of receipts of government grants.
9. Feedback from outreach on classification of cash flows is described in detail in prior papers including [Agenda Paper 20A](#) and [Agenda Paper 20B](#) for the March 2025 IASB meeting (during the initial research phase) and [Agenda Paper 20B](#) for the December

2025 IASB meeting (December 2025 paper). Those papers summarise feedback from many stakeholders about the requirements for classifying cash flows, including the Accounting Standards Advisory Forum, the IFRS Interpretations Committee, the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC) and the Emerging Economies Group.

Cash flows from derivatives

10. This section discusses the classification of cash flows from derivatives and is structured as follows:
- (a) requirements in IFRS Accounting Standards (paragraphs 11–13);
 - (b) background on application of the requirements (paragraphs 14–18);
 - (c) potential solutions (paragraphs 19–36); and
 - (d) recommended solution (paragraphs 37–38).

Requirements in IFRS Accounting Standards

11. The definition of ‘investing activities’ in paragraph 6 of IAS 7 states that ‘[i]nvesting activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends as described in paragraphs 34A–34D’.
12. Paragraph 16 of IAS 7 states (in part):
- ... Examples of cash flows arising from investing activities are:
 - (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.
 - (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

...

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.

13. Although paragraph 16(g)–(h) of IAS 7 refers to specific types of derivative contracts—futures, forward, option and swap contracts—we understand that, in practice, entities apply that paragraph to all types of instruments that meet the definition of a derivative in IFRS 9.

Background on application of the requirements

14. As discussed in the December 2025 [Agenda Paper 20B](#), stakeholder feedback highlighted diversity in the following areas regarding the classification of cash flows from derivatives that are used to manage identified risks:
- (a) there are differing interpretations about whether the requirement in paragraph 16 of IAS 7 for classifying cash flows from derivatives an entity uses to hedge (in a hedging relationship applying IFRS 9) also applies to derivatives used to manage identified risks (not designated in a hedging relationship applying IFRS 9); and
 - (b) it is unclear whether cash flows from a derivative an entity uses (not designated in a hedging relationship applying IFRS 9) to manage identified risks of multiple items should be split up and classified separately if the cash flows of the multiple items are classified in different categories.
15. For the matter set out in paragraph 14(a) of this paper, as discussed in the December 2025 paper, feedback suggests diversity in practice stems from differing interpretations of the last sentence in paragraph 16 of IAS 7. That sentence states: ‘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.’ Feedback indicates some stakeholders interpret that requirement as being limited to contracts designated in a hedging relationship applying IFRS 9, while

- other stakeholders think that sentence can (or should) be applied to derivatives used to manage identified risks and not designated in a hedging relationship applying IFRS 9.
16. An outcome of the first view—that is, application of the last sentence of paragraph 16 of IAS 7 is limited to contracts designated in a hedging relationship applying IFRS 9—is that there can be cash flow disconnects. Applying paragraph 16(g)–(h) of IAS 7, cash flows from derivatives are *investing* cash flows unless they are held for dealing or trading purposes or are classified as financing activities. As a result, for example, cash flows from derivatives used to manage the risks of trade receivables or trade payables would be classified as cash flows from investing activities, while cash flows related to the trade receivables or trade payables themselves might be classified as operating activities.
17. For the matter set out in paragraph 14(b) of this paper, feedback suggests there is a lack of specificity in IAS 7 on how to present cash flows from derivatives that manage identified risks of multiple items. The last sentence of paragraph 16 of IAS 7 says the cash flows of the derivative contract are classified ‘in the same manner’ as the cash flows of the position being hedged. However, that requirement does not provide details about scenarios involving multiple items being hedged or risk managed by one derivative—or whether cash flows from a derivative should be split up and classified as separate activities. In addition, we do not have available to us the International Accounting Standards Committee’s rationale for the development of the requirements related to cash flows from derivatives, because when IAS 7 was developed in 1992, it was not accompanied by a basis for conclusions.¹
18. In summary, we have identified two problems to be solved:
- (a) how to classify cash flows from derivatives used to manage identified risks (not designated in a hedging relationship applying IFRS 9); and

¹ See paragraph BC2 of the Basis for Conclusions on IAS 7 *Statement of Cash Flows*, which was added later when the IASB amended aspects of IAS 7.

- (b) how to classify cash flows from derivatives that manage identified risks of multiple items (not designated in a hedging relationship applying IFRS 9).

Potential solutions

19. We have identified two potential approaches to improve the consistency of classifying cash flows from derivatives. These are:

(a) Approach 1:

- (i) Part A: specify that cash flows from a derivative used to manage identified risks (not designated in a hedging relationship applying IFRS 9) are classified in the same manner as the cash flows of the item(s) whose identified risks are being managed; and
- (ii) Part B: specify that if classifying cash flows from a derivative used to manage identified risks in the same manner as the cash flows of the item(s) whose identified risks are being managed (not designated in a hedging relationship applying IFRS 9) involves undue cost or effort, the cash flows from that derivative are classified as operating activities.

- (b) Approach 2: specify that cash flows from a derivative used to manage identified risks (not designated in a hedging relationship applying IFRS 9) are classified as operating activities.

Rationale for Approach 1

20. Approach 1 would address the identified problems summarised in paragraph 18 of this paper by adding to, and providing more specificity about, the requirements for classifying cash flows from derivatives.

21. Approach 1 is generally modelled after the approach used in IFRS 18 *Presentation and Disclosure in Financial Statements* for the classification of gains or losses on derivatives in the statement of profit or loss. In particular:

- (a) Part A of Approach 1 is similar to the requirement in paragraph B72 of IFRS 18 for an entity to classify gains or losses on a derivative not designated

as a hedging instrument, but nonetheless used to manage exposure to identified risks, in the same category of the statement of profit or loss as the income or expenses affected by the risks the entity uses the financial instrument to manage.

- (b) Part B of Approach 1 provides an undue cost or effort exception that is similar to the one included in paragraph B72 of IFRS 18. The undue cost or effort exception in Part B is further discussed in paragraph 24 of this paper.

22. Approach 1 is expected to result in the classification of cash flows from derivatives better reflecting the effects of an entity's risk management activities—similar to the rationale underpinning paragraphs B70–B72 of IFRS 18 for the classification of gains and losses from derivatives. As explained in the Basis for Conclusions on IFRS 18, if a derivative is used to manage an identified risk, the derivative relates to the income or expenses (or assets or liabilities) affected by the risk being managed.² Approach 1 extends that rationale to cash flows. This approach also could be applied when a derivative is used to manage identified risks of multiple items (see paragraph 14(b) of this paper).
23. However, a drawback of Approach 1 might be greater complexity—as compared to Approach 2—for entities to apply and for investors to ‘connect the pieces’ with cash flows from derivatives classified in different categories. Entities might experience challenges in identifying cash flows related to the identified risks being managed (for example, if they use a central treasury function to be the counterparty to internal derivatives used for risk management)³. In addition, the manner in which derivatives are settled might cause complications for classifying cash flows using an IFRS 18-type approach. For example, derivatives contracts might require cash to be paid up front or during the outstanding period (margin calls). Part B of Approach 1 (the undue

² See paragraph BC223 of the Basis for Conclusions on IFRS 18 *Presentation and Disclosure in Financial Statements*.

³ Paragraph BC228 of the Basis for Conclusions on IFRS 18 states that ‘For example, an entity’s central treasury function might be the counterparty to internal derivatives used for risk management, which are then ‘externalised’ on a net exposure basis.’

cost or effort exception) is expected to reduce compliance costs for preparers in those situations but might result in less transparency about cash flows for investors.

24. As set out in Part B of Approach 1, if classifying cash flows from a derivative used to manage identified risks in the same manner as the cash flows of the item(s) whose identified risks are being managed involves undue cost or effort, Approach 1 would specify that the cash flows from that derivative are classified as operating activities. Using operating activities as the classification (rather than investing or financing activities) in such a situation would:
- (a) be a reasonable ‘default’ classification given feedback about the way entities (that are not financial institutions⁴) commonly use derivatives to manage risks associated with their operations. For example, feedback⁵ indicates:
 - (i) these entities frequently use a central treasury function, or in-house banking unit, to pool cash flows, including those from derivatives, across functions and subsidiaries.
 - (ii) these entities frequently use derivatives to mitigate risks of foreign currency fluctuations on their trade receivables and payables as part of their operations—and these are cash flows ‘derived from the principal revenue-producing activities of the entity’ (the definition of operating activities in IAS 7).
 - (iii) while these entities might also frequently use derivatives to mitigate risks associated with their short-term or long-term (internal or external) investing and financing activities, the pooling of cash flows in their central treasury function is commonly operationally driven—and cash flows might be tracked in different ways for management purposes.

⁴ The IASB will consider how any improvements might apply to the statement of cash flows for financial institutions in a separate workstream of this project.

⁵ See feedback on IFRS Interpretations Committee (Committee) tentative agenda decision ‘Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)’ as summarised in [Agenda Paper 2A](#) for the Committee’s March 2026 meeting (particularly paragraph 49 of that paper). The use of in-house cash pooling is described, for example, in comment letters from [BASF](#) and [Siemens](#).

- (b) align with similar requirements in IFRS 18, which require an entity to classify gains or losses from a derivative that is not designated as a hedging instrument applying IFRS 9, but is used to manage identified risks, in the operating category if doing otherwise would involve undue cost or effort.

Rationale for Approach 2

25. Approach 2 would address the identified problems summarised in paragraph 18 of this paper for cash flows from derivatives used to manage identified risks (not designated in a hedging relationship applying IFRS 9). Cash flows would all be classified as operating activities.
26. Approach 2 is expected to be easier for preparers to apply and for users of financial statements to find the cash flows in one classification. The rationale for specifying operating activities as the classification (rather than investing or financing activities) is the same as that discussed in paragraph 24 of this paper for the use of operating activities in an undue cost or effort exception under Approach 1.
27. However, a drawback of Approach 2 is that the resulting classification of cash flows might not provide useful information about an entity's risk management activities. If the cash flows of the items whose identified risks are being managed are classified as investing or financing activities, the classification of the cash flows of a derivative (classified as operating activities) would not align with the items whose identified risks are being managed. This mismatch might create difficulties for users of financial statements in analysing an entity's cash flows.

Feedback from CMAC and GPF members

28. In March 2026, the staff presented to [CMAC](#) and [GPF](#), in their separate meetings, earlier versions of Approach 1 and Approach 2 that did not include an exception for 'undue cost or effort'. Most CMAC and GPF members who offered thoughts on the approaches expressed support for Approach 1 because it would better follow the economics of the risk management relationship as explained in paragraph 22 of this paper, and because that approach would align the requirements for classifying cash

flows from a derivative with the requirements in IFRS 18 for classifying income and expenses from a derivative.

29. Some GPF members said it would be helpful for the IASB to specify that if following Approach 1 involves undue cost or effort, an entity classifies cash flows from a derivative as operating activities—an approach that would align with paragraph B72 of IFRS 18. We added this as Part B of Approach 1 (see paragraph 19(a)(ii) of this paper).

Other matters

Grossing up of cash flows

30. When a derivative is used to manage the identified risks of multiple items, in some cases a derivative might manage multiple items with offsetting risk exposures. We therefore considered whether there is a need for the IASB to prohibit, in the statement of cash flows, the grossing up of cash flows from derivatives, similar to the requirements in paragraphs B70–B75 of IFRS 18 that prohibit the grossing up of gains or losses on derivatives in the statement of profit or loss.
31. As explained in paragraph BC226 of the Basis for Conclusions on IFRS 18, if a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in more than one category of the statement of profit or loss, an entity would have to gross up the gains or losses on the hedging instrument to classify them in the applicable categories. In such circumstances, IFRS 9 requires the entity to present gains or losses on the hedging instrument in a separate line item to avoid the grossing up of gains and losses from a single hedging instrument. The IASB therefore developed the requirements in paragraphs B70–B75 of IFRS 18.
32. We do not think it is necessary to include a specific prohibition for grossing up cash flows, because IAS 7 is clear that only actual cash flows should be reported in the statement of cash flows. For example, IAS 7 specifically states that non-cash transactions should be excluded from the statement of cash flows. In the case of derivatives used to manage offsetting risk exposures, our research suggests the

derivatives would often be settled net and, therefore, there would be one cash inflow or outflow that would be reported and classified accordingly.

The default classification for derivative cash flows

33. Paragraph 16(g)–(h) of IAS 7 (reproduced in paragraph 12 of this paper) states, via examples, that the default classification for cash flows for (and from) derivatives is investing activities. Cash flows for (and from) derivatives are classified as operating activities if the contracts are held for dealing or trading purposes or as financing activities if the financing activities definition is met. Otherwise, when derivatives are not used as a hedge (as addressed by the last sentence of paragraph 16 of IAS 7), the cash flows are classified as investing activities.
34. We note that paragraph B73 of IFRS 18 requires an entity to classify gains and losses on a derivative that is not used to manage identified risks in the financing category of the statement of profit or loss, if the derivative relates to a transaction that involves only the raising of finance, or otherwise in the operating category. The IASB’s rationale for this requirement, as discussed in paragraphs BC232–BC235 of the Basis for Conclusions on IFRS 18, includes that:
- (a) derivatives not used to manage exposures to identified risks could include derivatives related to transactions that involve only the raising of finance. Often these derivatives are transacted as part of raising finance in a more cost-effective manner (see paragraph BC232).
 - (b) derivatives could be assets or liabilities, whereas the investing category of the statement of profit or loss includes only income and expenses from assets (see paragraph BC234).
 - (c) classifying the gains and losses in the operating category is simpler and would be consistent with the approach applied to derivatives used to manage exposures to identified risks—because if an entity does not allocate gains or losses on derivatives used to manage exposures to identified risks to the applicable categories, the entity classifies those gains or losses in the operating category of the statement of profit or loss.

35. We think this same rationale applies to the statement of cash flows because:
- (a) derivatives not used to manage identified risks could include derivatives related to cash flows classified as financing activities. Paragraph 16(g)–(h) of IAS 7 requires payments or receipts of derivatives related to financing activities to be classified as financing activities.
 - (b) derivatives can be assets or liabilities, whereas paragraph 6 of IAS 7 defines investing activities as ‘the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of interest and dividends.’
 - (c) based on our analysis in this paper (particularly our consideration of a ‘default’ classification in operating activities under an undue cost or effort exception as discussed in paragraph 24 of this paper), we think operating activities, rather than investing activities, would be a more suitable default classification for cash flows for (and from) derivatives.
36. Therefore, we recommend that the IASB proposes to add requirements specifying that an entity classifies cash flows from derivatives it does not use to manage identified risks:
- (a) in the financing category, if the derivative relates to a transaction that involves only the raising of finance; and
 - (b) in the operating category, if the derivative does not relate to a transaction that involves only the raising of finance.

Recommended solution

37. Based on our analysis (see paragraphs 19–36 of this paper), we recommend pursuing Approach 1 (set out in paragraph 19 of this paper) to address the problems summarised in paragraph 18 of this paper. That is, we recommend that the IASB proposes to add requirements specifying that:
- (a) an entity classifies cash flows from a derivative it uses to manage identified risks (not designated in a hedging relationship applying IFRS 9) in the same

manner as the cash flows of the item(s) whose identified risks are being managed; and

- (b) an entity classifies cash flows from a derivative it uses to manage identified risks (not designated in a hedging relationship applying IFRS 9) as operating activities if classifying those cash flows in the same manner as the cash flows of the item(s) whose identified risks are being managed involves undue cost or effort.

38. We also recommend that the IASB proposes to add requirements specifying that an entity classifies cash flows from derivatives it does not use to manage identified risks:
- (a) in the financing category, if the derivative relates to a transaction that involves only the raising of finance; and
 - (b) in the operating category, if the derivative does not relate to a transaction that involves only the raising of finance.

Question for the IASB

1. Does the IASB agree with the staff recommendations in paragraphs 37–38 of this paper?

Receipts of government grants

39. This section discusses the classification and presentation of receipts of government grants and is structured as follows:
- (a) classification (paragraphs 40–59); and
 - (b) gross vs net presentation (paragraphs 60–71).

Classification

40. This section discusses the classification of receipts of government grants and is structured as follows:
- (a) requirements in IFRS Accounting Standards (paragraphs 41–43);

- (b) background on application in practice (paragraphs 44–46);
- (c) potential solutions (paragraphs 47–58); and
- (d) recommended solution (paragraph 59).

Requirements in IFRS Accounting Standards

- 41. IAS 7 does not include specific requirements for classification of receipts of government grants in the statement of cash flows.
- 42. IAS 20 requires an entity:
 - (a) to present government ‘grants related to assets’ in the statement of financial position.
 - (b) to classify and present government ‘grants related to income’ (defined as ‘government grants other than those related to assets’) in the statement of profit or loss in accordance with the requirements in IFRS 18.
- 43. The [Appendix](#) to this paper provides further background about the accounting for government grants in IAS 20 and in U.S. GAAP.

Background on application in practice

- 44. As discussed in the December 2025 [Agenda Paper 20B](#), stakeholder feedback highlighted diversity in classifying cash flows from receipts of government grants in the following areas:
 - (a) there are differing interpretations about whether receipts of government grants should be classified in the same category as the cash flows of the asset, liability or expense⁶ to which the grants relate (the related items).
 - (b) if receipts of government grants are to be classified in the same category as the cash flows of the related items, it is unclear how to do so when the grants are

⁶ Feedback from outreach did not include ‘income’ in this list. Although a government grant might provide financial support to an entity to compensate it for lost income or revenue (see paragraph 21 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*), we expect that the entity would not have had a related cash outflow associated with the lost income or revenue that would need to be ‘matched’ to the receipt of cash through the grant.

only loosely related to specific assets, liabilities or expenses or relate to multiple assets, liabilities or expenses. Feedback indicates that significant judgement is (or can be) required in determining the related items in these types of circumstances.

45. As discussed in the December 2025 Agenda Paper 20B, for the matters described in paragraph 44 of this paper, feedback suggests diversity in practice stems from the lack of specific requirements in IAS 7 on classifying cash flows from government grants (as noted in paragraph 41 of this paper). In the absence of specific requirements, entities develop their own classification rationales based on applying the definitions in IAS 7 and applying judgement—resulting, in some cases, in differing cash flow classification for similar types of grants.
46. In summary, we have identified two problems to be solved:
- (a) whether to classify receipts of government grants in the same category as the cash flows of the related items; and
 - (b) how to classify receipts of government grants when the grants are only loosely related to specific assets, liabilities or expenses or relate to multiple assets, liabilities or expenses.

Potential solutions

47. We have identified two potential approaches to improve the consistency of classifying receipts of government grants. These are:
- (a) Approach 1:
 - (i) Part A: specify that receipts of government grants are classified in the same manner as the cash flows of the related items; and

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- (ii) Part B: if classifying receipts of government grants in the same manner as the cash flows of the related items is impracticable⁷, the cash flows from that grant are classified:
1. as investing activities for a grant related to assets (as defined in IAS 20); and
 2. as operating activities for a grant related to income (as defined in IAS 20).
- (b) Approach 2: specify that receipts of government grants are classified in all cases:
- (i) as investing activities for a grant related to assets (as defined in IAS 20); and
 - (ii) as operating activities for a grant related to income (as defined in IAS 20).

Rationale for Approach 1

48. Approach 1 would address the identified problems summarised in paragraph 46 of this paper by providing requirements for classifying receipts of government grants.
49. Based on their nature, receipts of government grants are, in most cases, tied to specific activities of the receiving entity, such as acquiring or constructing an asset or performing a particular operation or activity. By aligning the classification of receipts of government grants with the activity or activities to which the grants relate, Approach 1 would result in classification of cash flows better reflecting the economics of government grant activity.
50. Approach 1 also directionally aligns with classification requirements for grants related to income in the statement of profit or loss. Paragraph 29 of IAS 20 states that grants related to income are classified and presented in the statement of profit or loss in

⁷ IAS 8 *Basis of Preparation of Financial Statements* defines 'impracticable' as 'applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so ...'.

accordance with the requirements in IFRS 18; those grants are included in profit or loss, either as income or as a deduction in reporting the related expense. IFRS 18 requires an entity to classify its income and expenses in the categories of its statement of profit or loss by assessing how those items meet the definition of each category, with the operating category as the default. Similarly, Approach 1 would require allocating cash flows from a grant related to income to the relevant activity classifications in IAS 7 or, if impracticable to do so, classifying the cash flows as operating activities.

Impracticability exception

51. A drawback of Approach 1 might be greater difficulty—as compared to Approach 2—for entities to apply. As discussed in the December 2025 Agenda Paper 20B (and summarised in paragraph 44(b) of this paper), determining to which assets, liabilities or expenses a government grant relates can require significant judgement, such as when allocations are not specified or are arbitrary. Some grants are only loosely related to a specific asset, liability or expense. In other circumstances, a grant might relate to a broad range and type of activities, without clear allocation of the expenses and cash flows to those activities.
52. In response to this stakeholder feedback, we suggest including an ‘impracticability’ exception in Part B of Approach 1. This would be applied, for example, when the terms of a grant are not specific enough to reasonably relate the cash flows to a specific asset, liability or expense. We note that IFRS 18 requires the operating category to be used as a default category for classifying income and expenses in the statement of profit or loss. In cases in which income, or reimbursement of expenses, received by an entity through a grant related to income cannot otherwise be classified applying IFRS 18, the operating category would be used as a default. We think it is appropriate to specify, for similar circumstances, default classifications for cash flows from government grants.
53. Accordingly, Approach 1 would specify that if classifying receipts of government grants in the same manner as the cash flows of the related items is impracticable, the

cash flows are classified as investing activities for a ‘grant related to assets’ and as operating activities for a ‘grant related to income’. In our view:

- (a) investing activities is a reasonable ‘default’ classification for a grant related to assets because, based on its nature, a grant related to assets provides a contribution towards the purchase of (and investment in) assets, such as property, plant and equipment, to undertake activities covered by the grant. Based on our research, such default classification also is consistent with application in practice and guidance published by large accounting firms.
- (b) operating activities is a reasonable ‘default’ classification for a grant related to income because, based on its nature, a grant related to income often provides compensation to an entity for operational expenses already incurred in pursuit of an activity covered by the grant. Based on our research, such default classification also is consistent with application in practice and guidance published by large accounting firms.

Rationale for Approach 2

- 54. Approach 2 also would address the identified problems summarised in paragraph 46 of this paper by providing requirements for classifying receipts of government grants. Approach 2 does not need to separately consider the problem summarised in paragraph 46(b) of this paper because receipts of government grants would be classified based on the type of grant (as set out in IAS 20) and not based on a grant’s relation to specific assets, liabilities or expenses. The rationale for specifying cash flow classification as investing activities for a grant related to assets, and as operating activities for a grant related to income, is the same as that discussed in paragraph 52 of this paper for an impracticability exception under Approach 1.
- 55. Approach 2 is expected to be easier to apply—compared to Approach 1—because an entity would not need to align the grant receipt with the cash flows of the related items. This approach could also make it easier for users of financial statements to find the cash flows from receipts of government grants in the statement of cash flows—such as for grants related to assets within cash flows from investing activities.

Compared to Approach 1, receipts of grants would not be classified across activities in the statement of cash flows (operating, financing and investing) other than by grant type (that is, grants related to assets or related to income, as defined in IAS 20).

Consequently, under Approach 2, receipts of grants would be classified either entirely as investing activities for a grant related to assets or entirely as operating activities for a grant related to income—and would not be classified as financing activities (see further discussion in paragraph 57 of this paper).

56. An entity presenting a statement of cash flows using the indirect method (as described in paragraph 18(b) of IAS 7) adjusts operating profit or loss for the effects of various items to determine its net cash flow from operating activities. Under Approach 2, if an entity has received a government grant related to income, and the associated income (or reduction of expense) is not classified in the operating category in the statement of profit or loss, the entity would adjust its operating profit or loss accordingly to determine its net cash flow from operating activities.
57. A drawback of Approach 2 is that cash flows might not follow the economics of the government grant received in all cases. For example, a grant related to income or assets could compensate an entity for finance costs it incurred to enable it to conduct an activity or purchase an asset to meet the conditions of the grant. The receipt of the grant would be classified as operating or investing activities, based on the type of grant, and no amount would be classified as financing activities. This lack of granularity might hamper investors in some cases (such as when financing is significant) in analysing an entity's cash flows related to government grants.

Feedback from CMAC and GPF members

58. In March 2026, the staff presented to [CMAC](#) and [GPF](#), in their separate meetings, earlier versions⁸ of Approach 1 and Approach 2. Most CMAC and GPF members who offered thoughts on the approaches expressed support for Approach 1 because it better

⁸ The version of Approach 1 discussed with CMAC and GPF at their March 2026 meetings did not include an exception for impracticability, and the version of Approach 2 would have classified all receipts of government grants as operating activities regardless of the type of grant.

aligns classification of cash flows with the economics of the government grants. Additional feedback included that following Approach 2 could distort cash flows from operating activities in some cases.

Recommended solution

59. Based on our analysis (see paragraphs 44–58 of this paper), we recommend pursuing Approach 1 (set out in paragraph 47(a) of this paper) to address the problems summarised in paragraph 46 of this paper. That is, we recommend that the IASB proposes to add requirements specifying that:
- (a) an entity classifies receipts of government grants in the same manner as the cash flows of the asset, liability or expense to which the grant relates (the related items); and
 - (b) an entity classifies receipts of government grants in one of two ways if it is impracticable to classify those cash flows in the same manner as the cash flows of the related items—namely:
 - (i) as investing activities for a grant related to assets (as defined in IAS 20); and
 - (ii) as operating activities for a grant related to income (as defined in IAS 20—that is, a grant other than one related to assets).

Gross vs Net Presentation

60. This section discusses the gross versus net presentation of receipts of government grants and is structured as follows:
- (a) requirements in IFRS Accounting Standards (paragraphs 61–63);
 - (b) background on application in practice (paragraphs 64–67); and
 - (c) recommended solution (paragraphs 68–71).

Requirements in IFRS Accounting Standards

61. IAS 20 provides limited guidance about presentation of cash flows from government grants related to *assets*. Paragraph 28 of IAS 20 states that [emphasis added] ‘The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements *are often disclosed as separate items* in the statement of cash flows regardless of whether or not the grant is deducted from the related asset for presentation purposes in the statement of financial position.’
62. IAS 20 does not provide requirements or guidance on how to present cash flows from government grants related to *income*. IAS 7 does not include specific requirements for presentation of receipts of government grants (for either grants related to assets or grants related to income) in the statement of cash flows.
63. Paragraph 22 of IAS 7 explains when an entity may report cash flows on a net basis but makes no reference to government grants.⁹ Government grants are also not included in the examples provided in paragraphs 23–24 of IAS 7 of cash flows that may be reported on a net basis.

Background on application in practice

64. As discussed in the December 2025 [Agenda Paper 20B](#), stakeholder feedback highlighted diversity in presenting receipts of government grants related to assets on a gross versus a net basis in the statement of cash flows. Feedback indicates the diversity stems from the lack of specific requirements (see paragraphs 61–63 of this paper) on this topic in the Standards.
65. An example of diversity related to whether entities present cash flows on a gross or a net basis is the presentation of cash payments to acquire property, plant and

⁹ Paragraph 22 of IAS 7 states that ‘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.’

equipment in accordance with a grant related to assets. Feedback suggests some entities present their payments to acquire property, plant and equipment either:

- (a) net of the receipt of government grants within cash flows from investing activities (a net presentation); or
- (b) separately from the receipt of government grants, with the receipt of government grants presented either as cash flows from investing activities or as financing activities, and cash payments to acquire property, plant and equipment as investing activities (a gross presentation).

Feedback from CMAC

66. As discussed in paragraph 58 of this paper, in March 2026 the staff discussed the classification of receipts of government grants with members of CMAC. The issue of gross versus net presentation of cash flows was not included in those discussions. However, on the topic of disaggregation, a few CMAC members said they view government grants as non-recurring items and, therefore, they would like to see those items disaggregated in the statement of cash flows.

Interaction with non-cash changes

67. As described in paragraph 23 of IAS 20, a government grant might take the form of a transfer of a non-monetary asset, such as land or other resources (or equipment) for the use of the receiving entity. In such a circumstance, the entity would have a non-cash change that would need to be disclosed applying IAS 7. A separate workstream of this project is further considering disclosures related to non-cash changes.

Recommended solution

68. Based on our analysis, we think the IASB could improve the consistency of presenting receipts of government grants related to assets by proposing to add requirements specifying that an entity presents receipts of government grants related to assets on a gross basis—that is, cash flows received from grants related to assets and payments for the related items would be presented as separate items in the statement of cash flows.

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69. Our recommendation is consistent with the limited presentation guidance set out in paragraph 28 of IAS 20 for government grants related to assets (see paragraph 61 of this paper). If the IASB agrees with our recommendation, we would consider in drafting whether it is necessary to make changes to paragraph 28 of IAS 20.
70. Our recommendation is also consistent with the guidance in U.S. GAAP (see paragraph A7 of the Appendix to this paper) that, generally, information about the gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amounts of cash receipts and payments.
71. We do not recommend, at this time, that the IASB proposes presentation requirements for grants related to income. Stakeholder feedback (see paragraph 65 of this paper) about gross versus net questions was focused on grants related to assets. Gross versus net presentation of receipts of grants related to income is not relevant when an entity uses the indirect method to present its statement of cash flows (and therefore adjusts its operating profit or loss to determine its net cash flow from operating activities). We will further consider disaggregation of receipts of grants related to income with other disaggregation matters as part of a separate workstream of this project.

Staff recommendations and question for the IASB—receipts of government grants

72. In summary, we recommend the IASB proposes to add requirements specifying that:
- (a) an entity classifies receipts of government grants in the same manner as the cash flows of the asset, liability or expense to which the grant relates (the related items);
 - (b) an entity classifies receipts of government grants in one of two ways if it is impracticable to classify those cash flows in the same manner as the cash flows of the related items—namely:
 - (i) as investing activities for a grant related to assets (as defined in IAS 20); and

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- (ii) as operating activities for a grant related to income (as defined in IAS 20—that is, a grant other than one related to assets); and
 - (c) an entity presents receipts of government grants related to assets on a gross basis—that is, cash flows received from grants related to assets and payments for the related items would be presented as separate items in the statement of cash flows.

Question for the IASB

2. Does the IASB agree with the staff recommendations in paragraph 72 of this paper?

The Appendix—Background information about accounting for government grants

Summary of requirements in IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

- A1. IAS 20 sets out the requirements for two types of grants, those related to assets and those related to income. IAS 20 defines the terms ‘government grants’, ‘grants related to assets’ and ‘grants related to income’¹⁰:
- (a) *Government grants* are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity [footnote omitted].
 - (b) *Grants related to assets* are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.
 - (c) *Grants related to income* are government grants other than those related to assets.
- A2. Government grants related to *assets*, including non-monetary grants at fair value, are presented 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.¹¹

¹⁰ See the definitions in paragraph 3 of IAS 20.

¹¹ See paragraph 24 of IAS 20.

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- A3. Grants related to *income* are classified and presented in the statement of profit or loss in accordance with the requirements in IFRS 18. They are included in profit or loss, either as income or as a deduction in reporting the related expense.¹²
- A4. A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.¹³ When that reasonable assurance requirement is met, a government grant is recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.¹⁴

Requirements in U.S. GAAP

- A5. In December 2025 the FASB issued [Accounting Standards Update \(ASU\) No. 2025-10 Accounting for Government Grants Received by Business Entities](#) (the ASU). The amendments in the ASU establish requirements in U.S. GAAP for the accounting for a government grant received by a business entity, including for (1) a grant related to an asset and (2) a grant related to income. The FASB leveraged the requirements in IAS 20 in developing the amendments in the ASU.
- A6. The FASB decided not to prescribe a cash flow classification for the cash inflows of a grant related to an asset or a grant related to income. Rather, the FASB decided that cash inflows from the receipt of a government grant should be classified in accordance with Accounting Standards Codification (ASC) Topic 230, Statement of Cash Flows.¹⁵
- A7. The FASB's government grants project did not include consideration of whether an entity presents receipts of government grants on a gross versus a net basis in the statement of cash flows. ASC paragraph 230-10-45-7 states that 'Generally,

¹² See paragraph 29 of IAS 20.

¹³ See paragraphs 7–8 of IAS 20.

¹⁴ See paragraph 12 of IAS 20.

¹⁵ In paragraph BC59 of the Basis for Conclusions on the Update, the FASB stated that 'a business entity may classify proceeds from a grant related to income as a cash flow from an operating activity or as a cash flow from a financing activity. ... [and] a business entity may classify proceeds from a grant related to an asset as a cash flow from an operating activity, an investing activity, or a financing activity'.

information about the gross amounts of cash receipts and cash payments during a period is more relevant than information about the net amounts of cash receipts and payments.’