
Capital Markets Advisory Committee

Date	13 March 2026
Project	Statement of Cash Flows and Related Matters
Topic	Classification—Cash flows from derivatives and receipts of government grants
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Purpose of this session

- Ask CMAC members for views on:
 - the classification of **cash flows from derivatives**; and
 - the classification of **receipts of government grants**
- 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.

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

Information for CMAC members

Classification of cash flows from derivatives (15 min)	5–10
Classification of receipts of government grants (15 min)	11–15

Classification of cash flows from derivatives



Cash flows from derivatives—Background

- **Recent tentative decision by IASB:** At the December 2025 IASB meeting, the Board tentatively decided to explore developing requirements for the classification and presentation of cash flows from derivatives in the statement of cash flows—to facilitate consistent application
- **Background on current requirements:**
 - cash payments for and receipts from derivatives (futures contracts, forward contracts, option contracts and swap contracts) are classified as **investing activities** unless:
 - the contracts are held for dealing or trading purposes (in which case they are classified as **operating activities**), or
 - the payments or receipts are financing in nature (in which case they 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

Cash flows from derivatives—Evidence of diversity in application

- **During initial outreach some stakeholders highlighted diversity in application:**
 - cash flows from derivatives are sometimes **classified differently** depending on whether the derivatives are designated as hedging instruments (**hedge accounting**) or used as economic hedges (**not subject to hedge accounting**)
 - there can be **cash flow disconnects**—for example, cash flows from derivatives that are used to economically hedge an ‘**operating**’ underlying item (such as trade receivables or payables) would be classified as **investing** cash flows
 - it is unclear whether cash flows from a derivative should be split up and classified separately if the derivative hedges **multiple underlying items** (for which the cash flows are classified in different categories).

Cash flows from derivatives—Potential solutions

We think aligning the requirements for classifying cash flows from derivatives with the requirements for classifying income and expenses in IFRS 18 *Presentation and Disclosure in Financial Statements* would improve the consistency of the classification of cash flows from derivatives by:

- specifying that classification of derivatives would **follow the classification of the cash flows of the underlying** item—for example, when a derivative is **used to manage identified risks** (as an economic hedge), the cash flows of the derivative are classified in the same category as the cash flows of the items whose identified risks are being managed

Benefits:

- cash flows would better follow the economics of the risk management or hedging relationship
- the approach would better align classification in the statement of profit or loss and classification in the statement of cash flows

Drawbacks:

- might be more difficult for companies to apply and for investors to ‘connect the pieces’ with cash flows from derivatives classified in different categories

Cash flows from derivatives—Potential solutions (continued)

Alternative approach: Classify in a single category (operating activities)

- under this approach the IASB could specify that cash flows from derivatives used **to manage identified risks** (as an economic hedge) would be classified in the **operating** category

Benefits:

- easier to apply—and users of financial statements could find the cash flows in one category
- similar to including income and expenses from derivatives in the operating category when undue cost or effort applies in IFRS 18

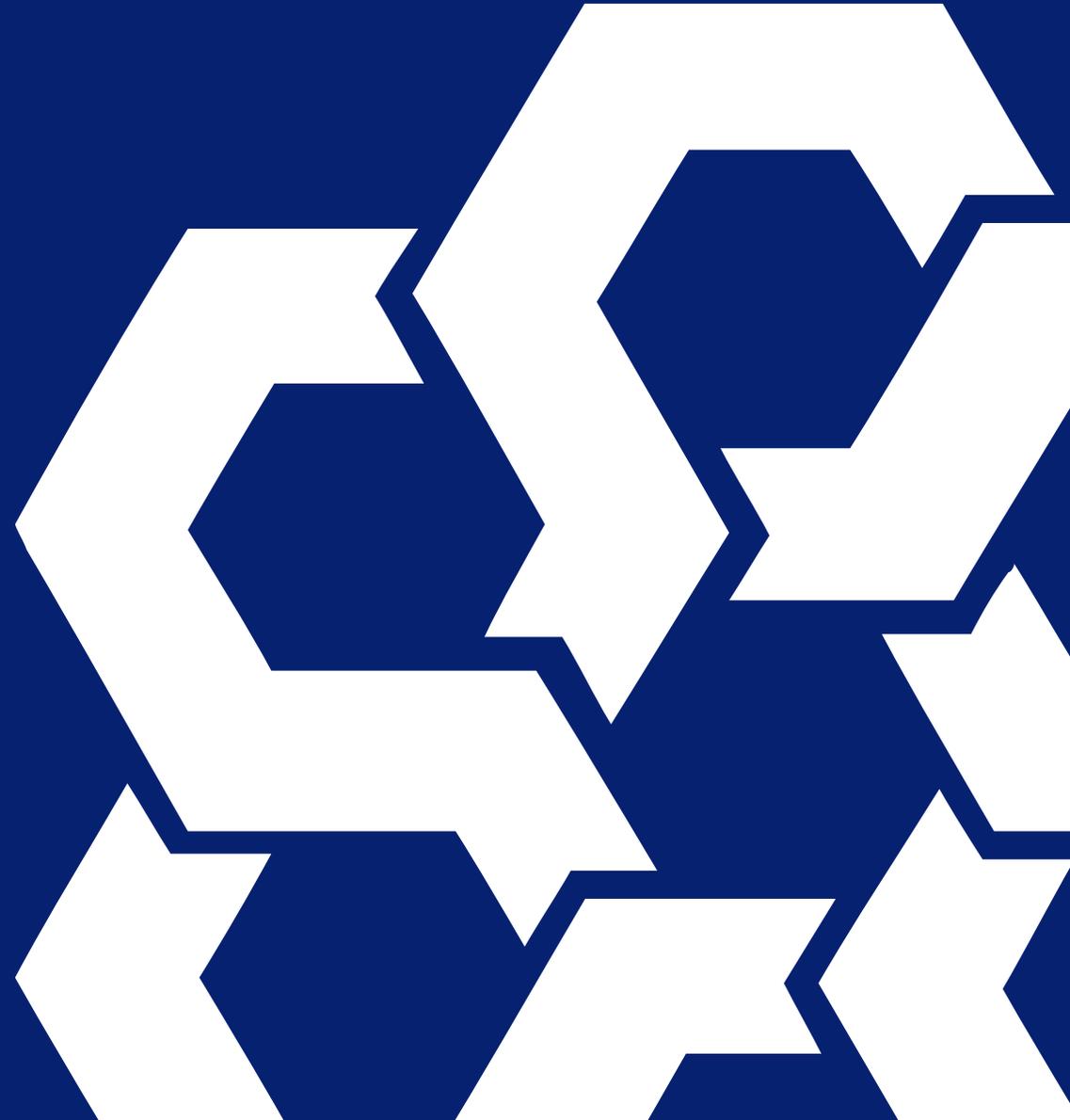
Drawbacks: cash flows might not follow the economics of the risk management or hedging relationship

Questions to CMAC members—Cash flows from derivatives

Question 1: **classification of cash flows from derivatives**

- a) Do you use information about cash flows from derivatives differently from information about income and expenses from derivatives? In other words, is there a reason for the IASB not to align the approach on cash flows with the approach in IFRS 18 (noted on **slide 8**)?
- b) If the IASB were to decide on the approach set out on **slide 8**, would disaggregation of the cash flows related to derivatives be useful to you? At what level of detail?
- c) If the IASB were to decide that cash flows from derivatives would be classified in a single category (the alternative approach on **slide 9**), do you agree that category should be *operating activities*? Why or why not?

Classification of receipts of government grants



Background—Receipts of Government Grants

- **Recent tentative decision by IASB:** At the December 2025 IASB meeting, the Board tentatively decided to explore developing requirements for the classification and presentation of receipts of government grants in the statement of cash flows—to facilitate consistent application
- **Background on current requirements:**
 - Entities apply IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*:
 - to present **government grants related to assets** in the statement of financial position—and IAS 20 states that entities ‘often’ separately present the cash flows for the purchase of assets and the receipt of related grants on a gross basis in the statement of cash flows; and
 - to include **government grants related to income** in the statement of profit or loss

However, our Standards do not include specific requirements for **classification** or **presentation** of receipts of government grants in the statement of cash flows

Classification of Receipts of Government Grants—Evidence of Diversity

- During initial outreach, some stakeholders **highlighted potential diversity** in how companies **classify** receipts of government grants in the statement of cash flows
- Some companies classify the receipt of government grants:
 - related to **the purchase or construction of an asset** as cash flows from:
 - **investing** activities—lowers the cost of the asset
 - **financing** activities—provides an alternative form of financing; or
 - **operating** activities—does not meet investing or financing activities
 - related to **expenditures used to generate revenues** as cash flows from **operating** activities
- Some companies say **significant judgement** might be required in determining which underlying assets, liabilities or expenses a government grant relates to because government grants:
 - are sometimes **only loosely related** to specific assets, liabilities or expenses; or
 - can relate to **multiple underlying** assets, liabilities or expenses

Classification of Receipts of Government Grants—Potential Solutions

To explore with CMAC members how we might improve the consistency of the classification of cash flows from government grants, **we consider two potential solutions:**

Option 1: Classify by following the underlying cash flows

- specify receipts of government grants are classified in the **same category as the cash flows of the underlying** asset, liability or expense to which the grant relates (for example, a grant received to purchase equipment would be classified as an **investing cash flow** if the purchase of that equipment was classified as an **investing cash flow**)

Benefits: cash flows would follow the economics

Drawbacks: significant judgement might be required (especially when there are multiple underlying items)

Option 2: Classify in a single category (operating activities)

- specify that cash flows from receipts of government grants would be classified as **operating** activities

Benefits: easier to apply

Drawbacks: cash flows might not follow the economics of the grants

Questions to CMAC members—Receipts of Government Grants

Question 2: **classification of receipts of government grants**

- a) how do you consider information about cash flows related to government grants, and which of the classification options on **slide 14** would provide you with more useful information for your analysis?
- b) if the IASB were to specify that cash flows from receipts of government grants would be classified in a single category (Option 2 on **slide 14**), do you agree that category should be *operating activities*? Why or why not?

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