Staff paper

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IASB® meeting

Date	**September 2026**
Project	**Statement of Cash Flows and Related Matters**
Topic	**Classification of acquisition-related payments**
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Purpose and background

1. At its December 2025 meeting, the International Accounting Standards Board (IASB) decided to explore developing requirements for the classification and presentation of acquisition-related payments in a business combination.

2. The purpose of this paper is to discuss potential requirements for classification of acquisition-related payments, in particular:
   - (a) payments of pre-existing debt;
   - (b) contingent and deferred consideration; and
   - (c) transaction costs.

3. This paper consists of:
   - (a) Executive summary;
   - (b) Staff recommendation and question for the IASB (paragraph 4);
   - (c) Background (paragraphs 5–11);
   - (d) Analysis of preferred classification outcomes (paragraphs 12–44);
   - (e) Analysis of potential standard-setting solutions (paragraphs 45–53); and
   - (f) Appendix A—extracts from IFRS Accounting Standards.

Executive Summary

Topic	Current practice	CMAC and GPF June 2026 feedback	Conceptual considerations	Staff recommendation
Payments of pre-existing debt	Investing or financing activities	Some consider it to be part of total consideration for the acquisition and therefore investing. Some consider it to be no different from other debt repayments and therefore financing.	Not part of consideration transferred applying paragraph 37 of IFRS 3 *Business Combinations* (see Appendix A). Payments made to settle debt subsequent to an acquisition would be a financing activity.	Financing activities to maintain consistency with IFRS 3.
Deferred consideration	Investing; financing; or split between both activities	Most members preferred investing activities. Some said financing, particularly for payments significantly later than the business combination, when time value of money is more significant.	Such consideration would be measured at acquisition date at its fair value. Subsequently such consideration is likely to be measured at amortised cost applying IFRS 9 *Financial Instruments*. Therefore, subsequent measurement would be recognised in profit or loss. Paragraph 16 of IAS 7 states that only expenditures resulting in a recognised asset can be classified in investing.	Investing activities except for payments of liabilities that are considered a borrowing, which would be classified as financing activities. This responds to user feedback.

Topic	Current practice	CMAC and GPF June 2026 feedback	Conceptual considerations	Staff recommendation
Contingent consideration	Investing; financing; or split between investing, financing and operating activities	Most members preferred investing activities. Some CMAC members said these payments are part of the consideration transferred. Some GPF members said investing activities is consistent with IFRS 3.	Acquisition date fair value of contingent consideration is included in consideration applying paragraph 37 of IFRS 3. Subsequent measurement of contingent consideration is recognised in profit or loss. Paragraph 16 of IAS 7 *Statement of Cash Flows* (see Appendix A) states that only expenditures resulting in a recognised asset can be classified in investing. Remeasurement of contingent consideration is classified in the operating category of profit or loss applying IFRS 18 *Presentation and Disclosure in Financial Statements*. US GAAP requires an entity to split payments to settle contingent consideration liabilities between investing, financing and operating activities.	Investing activities to respond to feedback that this is the most useful classification.
Transaction costs	Investing or operating activities	Members generally supported requiring one or the other. However, there were mixed views on which is preferable.	Not part of consideration applying paragraph 37 of IFRS 3.	Operating activities to maintain consistency with IFRS 3.

Staff recommendation and question for the IASB

4. In the Executive Summary, we explain our recommended classification outcomes. To achieve these outcomes, we recommend the IASB propose amending paragraph 39 of IAS 7 to specify that only payments that relate to items of consideration identified applying paragraph 37 of IFRS 3 are classified as an investing activity. Payments of deferred consideration that are considered 'borrowings' applying IAS 7 would be classified as financing activities.

Question for the IASB
Does the IASB agree with our recommendation in paragraph 4 to amend paragraph 39 of IAS 7?

Background

5. At its December 2025 meeting, the International Accounting Standards Board (IASB) decided, amongst other things, to explore developing requirements for the classification of acquisition-related payments in a business combination. At its May 2025 meeting the IASB decided not to aim to redefine the operating, investing and financing activities categories in IAS 7 *Statement of Cash Flows.*

6. Paragraph 39 of IAS 7 (see Appendix A) requires that cash flows arising from obtaining control of a business be classified as investing cash flows.

7. As explained in Agenda Paper 20B to the IASB's December 2025 meeting, we have identified differences in how entities classify some types of acquisition-related payments in a business combination, specifically:
   (a) repayments of pre-existing debt by the acquirer;
   (b) payments of contingent and deferred consideration; and
   (c) other acquisition-related payments such as transaction costs.

8. Differences in how entities classify these payments could arise because of:

   (a) different views on whether these payments are conceptually ‘operating’ cash flows;

   (b) different understandings of the phrase ‘cash flows arising from obtaining control’ in paragraph 39 of IAS 7; or

   (c) different fact patterns.

Work performed to date

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 and Agenda Paper 20B for the December 2025 IASB meeting. Those papers summarise feedback from many stakeholders about the requirements for classifying cash flows, including from the Accounting Standards Advisory Forum (ASAF), the IFRS Interpretations Committee (IC), the Global Preparers Forum (GPF), the Capital Markets Advisory Committee (CMAC) and the Emerging Economies Group.

10. Since December 2025, we have obtained further feedback on this topic at the joint CMAC and GPF meeting in June 2026. At that meeting we asked:

    (a) which classification outcomes provide the most useful or better information; and

    (b) whether there are challenges in identifying relevant payments.

11. Detailed feedback from CMAC and GPF members is provided next to our analysis of preferred classification outcome from each type of acquisition-related payment and ideas for standard-setting. However, at a high-level, feedback from CMAC and GPF suggests that:

    (a) improved consistency would improve usefulness of the information, and this could be aided by classification as a single activity for each type of payment; and

(b) usefulness would be enhanced by simplicity in any requirements.

Analysis of preferred classification outcomes

12. In this section we consider the most appropriate classification for each type of acquisition-related payment. In our analysis we consider current practice and feedback from stakeholders as to what is the most useful outcome. We consider:

    (a) repayments of pre-existing debt by the acquirer (paragraphs 13–22);

    (b) contingent and deferred consideration (paragraphs 23–36); and

    (c) transaction costs (paragraphs 40–44).

Repayments of pre-existing debt by the acquirer

13. In some business combinations a purchaser will repay pre-existing debt of the acquired business directly to the party holding the debt (for example, a bank) at the acquisition date. This might be ‘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. The payment will not form part of the consideration transferred in the business combination applying IFRS 3 because it is not paid to the former owners.

Feedback

Current practice

14. Some ASAF and IC members said that repayments of pre-existing debt by the acquirer are classified differently by entities and that classification can depend on whether the repayment is:

    (a) in substance consideration paid on behalf of the seller under the share purchase agreement (typically classified as investing cash flows); or

    (b) triggered by a change of control clause embedded in the liability (typically classified as financing cash flows).

15. One IC member said that the classification of repayments of pre-existing debt can depend on whether the repayments are:

    (a) voluntarily made, for example because the acquirer wants to use a different bank (typically classified as financing cash flows); or

    (b) compulsory, for example as a result of a change of control clause (typically classified as investing cash flows).

16. One IC member also said some entities classify a repayment of pre-existing debt as an investing cash flow irrespective of the reason for the repayment because they view the repayment as necessary for obtaining control of a business, even if that payment is not part of consideration transferred applying IFRS 3.

Desired classification outcomes

17. At the June 2026 joint meeting CMAC and GPF members had mixed views, with:

    (a) some members viewing these payments as financing activities because they are similar to other payments that reduce an entity's borrowings; and

    (b) some members viewing these payments as investing activities because they viewed the payments as part of the acquisition, and an investment in the acquired business.

Staff analysis of preferred classification outcome

18. From an economic perspective, some investors take a wide view of the capital employed in a business combination. They consider all payments made to acquire a business to be part of the capital employed to make the acquisition. This would include all consideration, regardless of who it is paid to.

19. Although we acknowledge this view, we note that IFRS Accounting Standards take a narrower view of the consideration paid for a business combination. Payments made to third parties, such as those made to banks for the repayment of debt of the acquiree

are not considered to be part of the consideration transferred for a business combination applying IFRS 3.

20. In assessing the preferred classification outcome, we considered feedback from CMAC and GPF as well as conceptual considerations. However, given the mixed views expressed by CMAC and GPF members (see paragraph 17), we think the key consideration is conceptual consistency with other IFRS Accounting Standards.

21. We think repayments of pre-existing debt should be classified as a financing activity because:

    (a) Such payments do not form part of consideration transferred applying IFRS 3 and therefore are conceptually not payments to obtain control of a business applying IFRS Accounting Standards; and

    (b) It is consistent with the treatment of similar repayments of debt after the business combination. Indeed, in our view repayments of pre-existing debt that occur because of a change of control clause happen after the business combination. Hence, they are repayments of debt of the reporting entity, even if the reporting entity had that debt only briefly.

22. We expect that users of financial statements (users) will obtain information about business combinations from the disclosures required by IFRS 3 that would allow them to calculate a wider view of the capital employed in a business combination. For example, paragraph B64(i) of IFRS 3 requires an entity to disclose information about the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed which could be combined with the information required by paragraph B64(f) of IFRS 3, which requires disclosure of the fair value of the total consideration transferred.

Contingent and deferred consideration

23. 'Deferred consideration' is not directly defined in IFRS 3. By deferred consideration we mean payments of liabilities incurred by the acquirer to former owners of the acquiree.

24. Contingent consideration in a business combination is a defined term in IFRS 3:

> Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

25. We think contingent consideration is usually a type of liability incurred by the acquirer to former owners of the acquiree and therefore a subset of what stakeholders refer to as 'deferred consideration'.

Feedback

Current practice

26. Some ASAF, IC and GPF members said there can be significant judgment involved in determining whether payments of contingent and deferred consideration relate to obtaining control or whether the expenditure results in the recognition of an asset in the statement of financial position.

27. They said entities classify payments of contingent and deferred consideration in one of the following ways:
    (a) investing activities (because the payment relates to obtaining control);
    (b) financing activities (because the payment is a repayment of a liability); or
    (c) a mix of investing, financing and possibly operating activities—that is, the payment is split into:

(i) a component reflecting the settlement of the fair value of the consideration recognised on initial recognition (typically classified as an investing activity);

(ii) a component reflecting the time value of money—a 'financing component' (typically classified as a financing activity); and

(iii) a component reflecting adjustments to the fair value of contingent consideration because of updated estimates or conditions, if applicable (no classification was specified by stakeholders, although following a review of accounting firm manuals we think this is possibly being classified as an operating activity).

Desired classification outcomes

28. At the June 2026 joint meeting CMAC and GPF members generally supported a simple approach that would result in all entities classifying these types of payments in the same way. Most CMAC and GPF members expressed support for classifying contingent and deferred payments as investing activities. Some GPF members' reason for supporting this classification was that it is consistent with the guidance in IFRS 3 for determining what is part of a business combination transaction. Some CMAC members said these payments are part of the consideration transferred.

29. Some members expressed support for classifying contingent and deferred payments as financing activities. Some of these members said this is because the role of time value of money becomes more important as more time passes between the acquisition date of the business combination and the date(s) the payments are made, which makes the payments seem more like financing activities. Some of these members said it might be difficult for the IASB to determine the point after which payments are considered financing activities.

Staff analysis of preferred classification outcome

30. We have analysed separately:

(a) deferred consideration (paragraphs 31–36) and

(b) contingent consideration (paragraphs 37–39).

Deferred consideration

31. Some accounting firms have guidance to say that, in their view, payments for deferred consideration should be split into different activities, depending on whether the payment is above the fair value of the original liability. We think this might build on concepts in US GAAP in relation to contingent consideration (see paragraphs 37–38).

32. In 2011 the IC considered an approach that would classify cash payments for contingent and deferred consideration in investing up to the fair value of that consideration at the acquisition-date. Payments above that would be classified in operating or financing (see Agenda Paper 9 and Agenda Paper 7 of the IC meetings in September and November 2011). The IC concluded that the issue was too broad to be resolved through the annual improvements process.

33. We do not recommend that the IASB propose requirements that would require an entity to classify deferred consideration as different activities. We think that requiring an entity to split deferred consideration (or contingent consideration) into different categories would be complex to apply. We think having the same payment split into different categories would be less clear for users and therefore be less useful information. CMAC and GPF members expressed a preference for simple and consistent classification requirements, with most CMAC and GPF members expressing a preference for classification as an investing activity.

34. However, we think there are conceptual arguments that could support classification of these payments as either investing or financing activities depending on the circumstances. For example:

(a) Consideration transferred for a business combination includes ‘the liabilities incurred by the acquirer to former owners of the acquiree’ applying paragraph 37 of IFRS 3. Therefore, when considering how to classify the payment in the statement of cash flows, we could consider the underlying reason for the liability, that is consider the payment from the view of IFRS 3 as part of the consideration transferred for a business combination and therefore as 'expenditures that result in a recognised asset in the statement of financial position' as explained in paragraph 16 of IAS 7. Applying this view, deferred payments would be classified as investing activities.

(b) If the payment is significantly later than the acquisition date, some might consider the payment of the liability to contain a financing element and therefore, whether some element of the payment for contingent consideration should be classified as a financing activity. That is, the payments should be considered more like payments of a liability rather than considering the underlying reason for the liability arising. This is similar to the IASB's decision to require a lessee to classify payments related to lease liabilities as financing activities applying paragraph 50 of IFRS 16 *Leases*.

35. We recommend that the IASB propose an approach that allows for classification of deferred payments in a business combination as either investing or financing activities, depending on the circumstances. We think:

(a) Such an approach is conceptually aligned with existing requirements in IFRS 3 and IAS 7, as explained in paragraph 34.

(b) This approach should result in users obtaining useful information. If an entity considers the payment to be an investing activity, it directly responds to the preference expressed by CMAC and GPF members (see paragraph 28). Similar to the outcome for leases, if an entity concludes the payment is a financing activity, applying the IASB's tentative decision on proposed non-cash disclosures in July 2026, in the year of the acquisition an entity would report a non-cash transaction that would depict a financing inflow and an investing outflow. This could provide useful information to users because they would receive information about the total investing flows in the year of acquisition, but the final payment (potentially long after the business combination) would be classified as a financing activity.

36. We consider how the IASB could distinguish between when payments of deferred consideration should be classified as an investing activity and when to classify as a financing activity in paragraph 50.

Contingent consideration

37. For contingent consideration, we note that US GAAP requires:

    (a) payments 'made soon after the acquisition date' to be classified as investing activities;

    (b) payments, or the portion of payments, 'not made soon after the acquisition date', up to the amount of the liability recognised at the acquisition date less any amounts already classified in (a), to be classified as financing activities; and

    (c) payments, or the portion of the payments, 'not made soon after the acquisition date' that exceed the amount of the liability recognised at the acquisition date less any amounts already classified in (a), to be classified as operating activities.

38. Some accounting firms in their accounting manuals explain that entities applying IFRS Accounting Standards should consider similar logic and outcomes.

39. We recommend the IASB propose specifying that contingent consideration be classified entirely as an investing activity rather than requiring an entity to split contingent consideration into different activities or requiring different classifications depending on facts and circumstances. We think that:

    (a) Contingent consideration forms part of the consideration transferred for a business combination applying IFRS 3. Therefore, we think that conceptually these payments are payments for obtaining control of the business combination and payments for the assets acquired in the business combination. We considered:

  - (i) Subsequent measurement in profit or loss—Although there might be some element of subsequent measurement of the contingent liability in the statement of profit or loss, the payments are made to settle the contingent consideration liability that arose in the business combination. That consideration is the amount paid for the assets acquired in the business combination. For example, paragraph BC346 of IFRS 3 explains that the obligating event for contingent consideration is the acquirer's agreement to make contingent payments and paragraph BC348 of IFRS 3 explains that a contingent consideration arrangement is inherently part of the economic considerations in the negotiations between the buyer and seller.
  - (ii) Deferral of payment—Payments for contingent consideration are by their nature made after the acquisition date. If the payment is significantly later than the acquisition date, some might consider the payment of the contingent liability to contain a financing element and therefore, similar to deferred consideration, whether some element of the payment for contingent consideration should be classified as a financing activity. However, unlike deferred consideration where the only item affecting the payment is the passage of time, contingent consideration also depends on factors that are more closely linked to the performance of the business combination. Therefore, we think for contingent consideration, classification as an investing activity is more appropriate.

- (b) As explained in paragraph 33, we think a requirement to split a payment between activities is complex and does not respond to requests from CMAC and GPF members for simple requirements and outcomes.

Transaction costs

Feedback

Current practice

40. Some ASAF, IC and GPF members said other acquisition-related payments, such as transaction costs or payments for post-acquisition services for which the expenditures do not result in the recognition of an asset in the statement of financial position (for example, fees for accountants, auditors, lawyers or brokers) are classified differently by entities. They said some entities classify such payments as investing cash flows because based on the view that:

    (a) these payments are necessary for obtaining control of a business and are directly related to the acquisition; and

    (b) classifying such payments as operating cash outflows would not faithfully reflect the economic substance of the transaction.

Desired classification outcomes

41. At the June 2026 joint meeting CMAC and GPF members generally supported a simple approach that would result in all entities classifying payments like transaction costs in the same way but had mixed views about whether those payments should be classified as operating or investing activities. One member suggested allowing an accounting policy choice for classifying these payments.

Staff analysis of preferred classification outcome

42. We think acquisition-related transaction costs should be classified as operating activities because such payments do not form part of the consideration transferred applying IFRS 3. As explained in paragraph BC366 of IFRS 3, acquisition-related costs are not part of the fair value exchange between the buyer and seller for the business. Rather, they are separate transactions in which the buyer pays for the fair value of services received. The IASB also observed that those costs, whether for

services performed by external parties or internal staff of the acquirer, do not generally represent assets of the acquirer at the acquisition date because the benefits obtained are consumed as the services are received.

43. Therefore, in our view they are not payments that arise from obtaining control of the business and do not result in the recognition of an asset.

44. We think the IASB should not allow an accounting policy choice for the classification of these payments. We note that CMAC and GPF members generally expressed a preference for consistent classification of these payments, which would not be possible when allowing an accounting policy choice.

Analysis of potential standard-setting solutions

Relevant feedback

45. Across all types of acquisition-related payments, in June 2026 CMAC and GPF members generally supported a simple approach that would result in all entities classifying each type of payment in the same way.

Potential solutions

46. As explained in paragraphs 12–44, we think any standard-setting solution should result in:

    (a) pre-existing debt being classified as a financing activity;

    (b) contingent consideration being classified as an investing activity;

    (c) deferred consideration being classified as either an investing or financing activity depending on the circumstances; and

    (d) acquisition-related transaction costs being classified as an operating activity.

47. We think there are two potential ways the IASB could achieve the outcomes explained in paragraph 46:

    (a) explicitly stating the expected outcomes in IAS 7; or

    (b) adding a link to other requirements in IFRS 3 and IAS 7.

48. We do not recommend the IASB explicitly state the expected outcomes in IAS 7 because:

    (a) Although this could achieve the outcomes explained in paragraph 46, there is a risk that there are other acquisition-related payments for which questions also arise. This approach would provide no requirements for those other payments.

    (b) It is not principle-based and does not fit neatly into the structure of IAS 7.

49. Instead, we recommend the IASB add a requirement to paragraph 39 of IAS 7 to state that only cash flows that are payments for 'consideration transferred' in IFRS 3 are cash flows from obtaining control of a subsidiary. As noted in our analysis in paragraphs 12–44, we think the outcomes explained in paragraph 46 are generally consistent with the requirements in paragraph 37 of IFRS 3—that is what is part of consideration transferred applying IFRS 3. Therefore, we think referring to existing requirements in IFRS 3 would typically result in the outcomes outlined in paragraph 46 and be consistent with the structure of IAS 7, which does not typically provide explicit requirements for specific types of payments.

50. To achieve the outcome in paragraph 46(c), we think the IASB could use concepts in IAS 7. In particular, we think that for deferred consideration, an entity should be required to classify payments as investing activities unless the payment is considered to be settlement of a borrowing of the entity as referred to in IAS 7. Payments of borrowings are required to be classified as financing activities.

51. As an existing concept, entities are already required to consider whether a liability is a borrowing. Therefore, the IASB would not be adding any new judgement. However, because this requires judgement, it might not result in reduced diversity in practice. IAS 7 contains limited guidance on what is a 'borrowing'. The IASB and IC have

previously looked at what a borrowing is but have decided not to add further requirements (for example see Agenda Paper 21A to the IASB's May 2021 meeting).

52. As noted in paragraph 4(b) of Agenda Paper 20B to the IASB's December 2025 meeting, we plan to revisit the classification of payments that are deferred in a future meeting. We will consider the interaction with the IASB's decision on deferred consideration when we revisit classification of payments that are deferred.

53. To illustrate how we think our recommendation in paragraphs 49–52 could be drafted, we think paragraph 39 of IAS 7 could be amended to state:

> The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities. Cash flows from obtaining control include only cash flows related to payment of the items of consideration for a business combination described in paragraph 37 of IFRS 3. Liabilities other than contingent consideration incurred by the acquirer to former owners of the acquiree that are considered 'borrowings' applying IAS 7 shall be classified as financing activities.

Appendix A—Extracts from IFRS Accounting Standards

A1. IAS 7 requirements:

> 16 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…
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> 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.

A2. IFRS 3 requirements:

> 37 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. … 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.
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> 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.

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.

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. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) Other contingent consideration that:

> (i) is within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with IFRS 9.

(ii) is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.