IFRS Accounting

Staff paper

Agenda reference: 21F

IASB® meeting

Date	**January 2023**
Project	**Primary Financial Statements**
Topic	**Statement of cash flows—interest received and classification for entities with specified main business activities**
Contacts	Qiyan Jiang (qjiang@ifrs.org) Juliane-Rebecca Upmeier (jrupmeier@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

Objective

1. This paper sets out staff analysis and recommendations relating to some of the amendments to IAS 7 *Statement of Cash Flows* proposed in the Exposure Draft *General Presentation and Disclosures*.[1] This paper considers the classification of:

   (a) interest received in the statement of cash flows for entities other than those with specified main business activities[2]; and

   (b) interest received, interest paid and dividends received for entities with specified main business activities.[3]

2. This paper does not discuss the classification of cash flows from associates and joint ventures accounted for using the equity method. This will be discussed in a future

[1] In March 2021, the IASB discussed the other aspects of the proposed amendments to IAS 7, including the scope of the proposals related to the statement of cash flows, the starting point for the indirect method of reporting operating cash flows and the classification of interest paid and dividend cash flows for entities other than those with specified main business activities (see Agenda Paper 21C).

[2] Entities with specified main business activities are entities that invest as a main business activity in assets that generate a return individually and largely independently of the other resources held by the entity or provide financing to customers as a main business activity.

[3] Dividends paid by entities with specified main business activities would be classified as cash flows arising from financing activities—the same for all entities (see March 2021 Agenda Paper 21C).

paper together with the classification of related income and expenses in the statement of profit or loss.

Summary of staff recommendations in this paper

3. The staff recommend the IASB:

   (a) confirm the proposal in the Exposure Draft to require that entities other than entities with specified main business activities classify interest received as cash flows arising from investing activities in the statement of cash flows; and

   (b) confirm the proposals in the Exposure Draft to require entities with specified main business activities to classify the following cash flows in a single category of the statement of cash flows (that is, either as cash flows from operating, investing or financing activities):

      (i) dividends received (other than dividends received from associates and joint ventures accounted for using the equity method);

      (ii) interest paid; and

      (iii) interest received.[4,5]

Structure of the paper

4. This paper is structured as follows:

   (a) background (paragraphs 5–15).

   (b) staff analysis, recommendations and questions for the IASB (paragraphs 16–44).

   (c) Appendix A—Extracts from the Exposure Draft and the Basis for Conclusions.

[4] Paragraph 33A of the proposed amendments to IAS 7 in the Exposure Draft requires all entities to classify dividends paid as cash flows arising from financing activities.

[5] The staff does not think the proposals for the classification of interest received (or paid) would affect the classification of cash flows relating to defined benefit obligations because the related cash flows are classified as cash flows from operating activities in the statement of cash flows applying paragraph 14(d) of IAS 7 for all entities (which requires entities to classify payments to and on behalf of employees as operating activities).

(d) Appendix B—Classification of interest and dividends.

Background

5. This section discusses:

   (a) the proposals in the Exposure Draft (paragraphs 6–10);

   (b) the feedback on the proposals in the Exposure Draft (paragraphs 11–13); and

   (c) the summary of related IASB tentative decisions from its redeliberations to date (paragraphs 14–15).

Proposals in the Exposure Draft

6. The IASB proposed to amend IAS 7 to improve consistency in classification by reducing the presentation alternatives currently permitted for the classification of interest and dividend cash flows (see paragraphs BC189–BC190).

7. The IASB proposed to require that entities other than those with specified main business activities, classify:

   (a) interest received and dividends received as cash flows arising from investing activities; and

   (b) interest paid and dividends paid as cash flows from financing activities (see paragraphs 33A and 34A of the proposed amendments to IAS 7 in the Exposure Draft).

8. For entities with specified main business activities, the IASB proposed that interest paid, interest received, and dividends received (other than those from associates and joint ventures accounted for using the equity method) should be classified in a single category of the statement of cash flows (ie either as operating, investing or financing

activities) (see paragraph 34B of the proposed amendments to IAS 7 in the Exposure Draft).[6]

9. When determining which single category should be used, an entity shall refer to the classification of the corresponding income or expenses in the statement of profit or loss:

   (a) if the entity classifies related income or expenses in a single category of the statement of profit or loss, the entity shall classify the cash flows in the corresponding category in the statement of cash flows; or

   (b) if the entity classifies related income or expenses in more than one category of the statement of profit or loss, the entity shall make an accounting policy choice to classify the cash flows in one of the corresponding categories of the statement of cash flows (see paragraphs 34C and 34D of the proposed amendments to IAS 7 in the Exposure Draft).

10. The IASB also has separate proposals relating to the classification of cash flows from associates and joint ventures accounted for using the equity method which are not in the scope of this paper (see paragraph 2).

Feedback on the proposals in the Exposure Draft

11. Paragraphs 12–13 of this paper summarise the relevant feedback on the proposals in the Exposure Draft relating to the statement of cash flows (described in more detail in Agenda Paper 21I of the December 2020 IASB meeting and Agenda Paper 21C of the March 2021 IASB meeting).

12. Most respondents did not comment on the proposals for the classification of interest and dividend cash flows. Among those respondents who did comment, many agreed with the proposals. In particular, most users supported the removal of options for the classification of interest and dividend cash flows. They said that consistent

[6] The IASB decided not to require full alignment with the statement of profit or loss due to the cost-benefit concerns, but rather to introduce a 'single category' approach. A single category approach would simplify the presentation of cash flows, in that each type of cash flow is classified in a single category of the statement of cash flows, which is consistent with current practice (see paragraphs BC199–BC200 of the Exposure Draft).

classification would enhance comparability. Besides, preparers with specified main business activities, including the insurance and banking industry, generally agreed with the proposed accounting policy choice.

13. Of the few respondents that raised concerns, almost all of the concerns were related to the lack of full alignment of the classification of interest and dividends between the statement of profit or loss and the statement of cash flows. In addition, a few preparers said that it would be costly for them to change their reporting systems to achieve the proposed changes in the classification of interest and dividends. For interest received, one regulator, one accounting body and one accounting firm said that the interest received arising from trade receivables under IFRS 15 *Revenue from Contracts with Customers* should be classified as cash flows from operating activities because the related income does not belong to the investing category in the statement of profit or loss.

Summary of related IASB tentative decisions from its redeliberations to date

14. In March 2021 (see Agenda Paper 21C), the IASB tentatively decided to proceed with the proposals in the Exposure Draft relating to the classification of interest paid and dividend cash flows for entities other than those with specified main business activities. Accordingly:

    (a) interest paid and dividends paid are classified as cash flows arising from financing activities; and

    (b) dividends received are classified as cash flows arising from investing activities.

15. At that meeting, the IASB did not discuss the classification of interest received for entities other than those with specified main business activities or the classification of interest paid and received and dividends received for entities with specified main business activities as related decisions on the statement of profit or loss were not made at the time.

Staff analysis, recommendations and questions for the IASB

16. This section discusses the classification in the statement of cash flows of:

    (a) interest received for entities other than those with specified main business activities (paragraphs 17–27); and

    (b) interest received, interest paid and dividends received for entities with specified main business activities (paragraphs 28–44).

Classification of interest received for entities other than those with specified main business activities ('general corporates')

17. This section discusses:

    (a) how would interest income be classified in the statement of profit or loss (paragraphs 18–20);

    (b) whether to confirm the proposed classification of interest received as cash flows arising from investing activities (paragraphs 21–25).

How would interest income be classified in the statement of profit or loss?

18. In the Exposure Draft, the IASB proposed to classify income and expenses from cash and cash equivalents in the financing category in the statement of profit or loss. However, in the redeliberations the IASB tentatively decided to change the category for these income and expenses to the investing category (see Agenda Paper 21B of the May 2021 IASB meeting).

19. In December 2021 (see Agenda Paper 21B), the IASB tentatively decided to confirm the proposal to classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity in the statement of profit or loss. In July 2022 (see Agenda Paper 21A), the IASB tentatively decided to add application guidance clarifying that income and expenses from financial assets arising from providing financing to customers are classified in the operating category in the statement of profit or loss.

20. In summary, interest income would be classified in the investing category in the statement of profit or loss, except for interest income on financial assets arising from providing financing to customers, including trade receivables and lease receivables, which would be classified in the operating category.

Should the IASB confirm the proposal to classify all interest received in the investing category?

21. If all interest received is classified as cash flows arising from investing activities in the statement of cash flows, there would be misalignment between the classification of interest revenue and interest received for financial assets arising from providing financing to customers, including trade receivables and lease receivables.[7]

22. However, as explained in paragraph BC197 of the Exposure Draft, the IASB concluded that including each type of cash flow in a single category in the statement of cash flows is more useful than full alignment between the statement of profit or loss and the statement of cash flows. This is because users are interested in total amounts for type of cash flow, and they have different objectives for analysis of cash flows. Paragraph 31 of IAS 7 already requires that cash flows from interest and dividends received and paid shall each be disclosed separately as this provides useful information for users of financial statements.

23. In addition, the effect of misalignment is not expected to be material for most entities. For example, interest received from cash and cash equivalents was the only or most substantial type of interest received for fieldwork participants (see Agenda Paper 21C of the March 2021 IASB meeting).[8] Therefore, the staff expects that for most entities classifying interest received as cash flows arising from investing activities in the statement of cash flows would result in full alignment between the statement of profit or loss and the statement of cash flows.

[7] An entity has interest received from trade receivables and lease receivables when trade receivables have a significant financing component and when the lease receivables are from finance leases.
[8] Interest income from cash and cash equivalents would be classified in the investing category and interest received would be classified as cash flows arising from investing activities (no misalignment).

24. If the IASB were to confirm the proposal that interest received would be classified as cash flows arising from investing activities, entities with trade receivables with significant financing components or lease receivables from finance leases would have to separate an interest component from a customer payment (or multiple customer payments) that would otherwise be classified as cash flows from operating activities.

25. The staff acknowledges that separating the interest component from the total payment for the purposes of classification in the statement of cash flows might be difficult in some circumstances. However, the staff does not expect a requirement to separate them to result in additional costs for preparers because paragraph 31 of IAS 7 requires that cash flows from interest and dividends received and paid to each be disclosed separately. Therefore, in order to comply with this requirement an entity would already be required to calculate the total amount of interest received.[9]

Staff recommendation and question for the IASB

26. The staff recommends the IASB confirms the proposal in the Exposure Draft to require that entities other than entities with specified main business activities classify interest received as cash flows arising from investing activities in the statement of cash flows for the same reasons as proposed in the Exposure Draft:

    (a) classification in a single category is more useful than full alignment; and

    (b) the effect of misalignment would be limited, especially as there would no longer be misalignment relating to interest from cash and cash equivalents.

27. The staff acknowledges that operational complexities may arise for interest received from customers. However, on balance, the staff thinks that requiring entities to split a customer payment into a principal portion and an interest component should be feasible for entities with trade receivables that have a significant financing component

[9] The staff notes that IFRS Accounting Standards do not provide any guidance on how to calculate 'interest received' when applying the requirements in paragraph 31 of IAS 7. In particular, there is no guidance on how an entity would calculate interest cash flows in cases where the underlying contracts do not explicitly specify the amounts of principal and interest. Developing such guidance is beyond the scope of this project.

or lease receivables from finance leases, given the existing requirements in paragraph 31 of IAS 7.

Question for the IASB
1. Does the IASB agree with the staff recommendation to confirm the proposal in the Exposure Draft to require that entities other than those with specified main business activities classify interest received as cash flows arising from investing activities in the statement of cash flows?

Classification of interest received, interest paid and dividends received for entities with specified main business activities

28. This section discusses the classification of interest received, interest paid and dividends received for entities that:

(a) invest as a main business activity (paragraphs 29–32); and

(b) provide financing to customers as a main business activity (paragraphs 33–37).

Entities that invest as a main business activity

29. An entity that invests in financial assets as a main business activity would generally have no misalignment in the classification of interest and dividends between the statement of profit or loss, and the statement of cash flows, because (see also table in Appendix B):

(a) all interest expense would be classified in the financing category in the statement of profit or loss and therefore interest paid would be classified as cash flows arising from financing activities;

(b) interest income from financial assets would generally be classified in the operating category of the statement of profit or loss and therefore interest received would be classified as cash flows from operating activities; and

(c) dividend income from financial assets (excluding the share of profit or loss from associates and joint ventures accounted for using the equity method) would generally be classified in the operating category of the statement of profit or loss and therefore dividends received would be classified as cash flows from operating activities.

30. However, given that the assessment level for investing as a main business activity is the individual asset,[10] there could be cases in which an entity concludes that it ***invests in some of its financial assets as a main business activity***, but not in all of its financial assets as a main business activity. In such a case, ***some*** interest income and dividend income would be classified in the operating category of the statement of profit or loss (from financial assets that are part of the main business activity) and ***some*** interest income and dividend income would be classified in the investing category of the statement of profit or loss (from financial assets that are not part of the main business activity).

31. Applying the proposals in the Exposure Draft, if interest and dividend income is classified in more than one category in the statement of profit or loss, an entity would make an accounting policy choice to classify all interest and dividends received in a single category in the statement of cash flows—leading to some misalignment between the statement of profit or loss and the statement of cash flows.

32. An entity that ***invests only in non–financial assets as a main business activity*** (for example, artwork or investment property) would classify interest income and interest expense and dividend income in the same way as a general corporate in the statement of profit or loss. This means that interest income may be classified in more than one category in the statement of profit or loss (see paragraph 20). Applying the proposals in the Exposure Draft, if interest income is classified in more than one category in the statement of profit or loss, an entity would make an accounting policy choice to classify all interest received and paid and dividends received in a single category in the statement of cash flows—leading to some misalignment between the statement of profit or loss and the statement of cash flows (see also table in Appendix B).

[10] Note: entities can group assets with similar characteristics (see IASB tentative decision on July 2022 Agenda Paper 21A).

Entities that provide financing to customers as a main business activity

33. An entity that provides financing to customers as a main business activity would generally classify interest expense in more than one category in the statement of profit or loss; either because:

    (a) it makes an accounting policy choice to classify only the portion of interest expense related to providing financing to customers in the operating category, leaving the rest in the financing category; and/or

    (b) has other liabilities, interest expense on which is always classified in the financing category (for example, interest expense from lease liabilities).

34. Applying the proposals in the Exposure Draft, an entity would make an accounting policy choice to classify interest paid in a single category in the statement of cash flows—thus making some misalignment likely.[11]

35. An entity that provides financing to customers as a main business activity but does ***not*** also invest in financial assets as a main business activity could classify interest income in more than one category in the statement of profit or loss because, for example, such an entity would classify interest income from financial assets arising from providing financing to customers in the operating category, and interest income from other financial assets (not a main business activity) in the investing category (see also table in Appendix B).[12]

36. Applying the proposals in the Exposure Draft, in the statement of cash flows an entity would make an accounting policy choice to classify interest received in a single category thus making some misalignment likely.

---

[11] The IASB's tentative decisions in July 2021 (see Agenda Paper 21A) on the financing category of the statement of profit or loss will increase the misalignment compared to the proposals in the Exposure Draft for interest expense and interest paid to some extent. Specifically, the Exposure Draft proposed that an entity that provides financing to customers as a main business activity would classify either all income and expenses from trade payables and lease liabilities in the operating category or the portion that relates to the provision of financing to customers (accounting policy choice). Given the IASB's tentative decisions in July 2021, trade payables and lease liabilities are no longer subject to the accounting policy choice provided in paragraph 51 of the Exposure Draft—hence, entities that provide financing to customers as a main business activity would need to classify such income and expenses in the financing category of the statement of profit or loss (the same as all other entities).

[12] Entities that provide financing to customers that do not also invest in financial assets as a main business activity have an accounting policy choice to classify either all income and expenses from cash and cash equivalents in the operating category or the portion related to the provision of financing to customers. The IASB explored in targeted outreach whether to withdraw the accounting policy choice (see Agenda Paper 21A of this meeting).

37. For dividend income from financial assets there might be misalignment for entities that also invest in financial assets as a main business activity but no misalignment for entities that do ***not*** also invest in financial assets as a main business activity.[13]

Staff recommendation and question for the IASB

38. Applying the proposals in the Exposure Draft entities that:

    (a) Invest in financial assets as a main business activity would generally classify interest and dividend cash flows in the same category of the statement of cash flows as the category in which related income and expenses are classified in the statement of profit or loss (except when such entities invest in ***some*** financial assets which are not their main business activity, as discussed in paragraphs 30–31).

    (b) invest only in non-financial assets as a main business activity are expected to generally have the same classification outcomes as general corporates. Interest paid and dividends received would be classified in the same category as the related expense and income in the statement of profit or loss, and interest received and interest income may be misaligned as discussed in paragraph 32.

39. Applying the same proposals, entities that provide financing to customers as a main business activity:

    (a) may classify interest expense in more than one category in the statement of profit or loss, depending on how they exercise the accounting policy choice for classification in the statement of profit or loss, and on whether they have liabilities that do not arise only from the raising of finance (and for which interest expense would be classified in the financing category of the statement of profit or loss); whereas interest paid would be classified in a single category in the statement of cash flows.

---

[13] An entity that provides financing to customers as a main business activity and also invests in financial assets as a main business activity (including in associates and joint ventures accounted for using the equity method) would have an accounting policy choice to classify dividends received either as cash flows from operating activities or cash flows arising from investing activities. An entity that provides financing to customers but does not also invest in financial assets as a main business activity would classify dividends received as cash flows arising from investing activities (no misalignment).

(b) would classify interest income in more than one category of the statement of profit or loss, if they do ***not*** also invest in financial assets as a main business activity; whereas interest received would be classified in a single category in the statement of cash flows.

(c) would have the same classification outcomes for dividends received as general corporates, if they do ***not*** also invest in financial assets as a main business activity, meaning both dividend income and dividends received would be classified in the investing category in both statements—but there is likely to be some misalignment for entities that also invest in financial assets as a main business activity as discussed in paragraph 37.

40. Following our analysis, it appears that having an accounting policy choice with regard to the classification in the statement of cash flows may be redundant for some entities, for some cash flows, because the model for general corporates could be applied (see Table 1). However, setting requirements specific both to type of cash flow and each main business activity might be unnecessarily complex (as entities often have a combination of main business activities). Hence, the staff does not recommend such an approach. We think that any requirements should apply to all entities with specified main business activities.

Table 1: When entities with specified main business activities could apply model for general corporates

Main business activity	Type of cash flow to which model for general corporate could apply
invest in financial assets	interest paid
invest in non-financial assets	interest received[14] dividends received interest paid
provide financing to customers (and do not invest in financial assets as a main business activity)	dividends received

[14] Following the proposals in the Exposure Draft, such an entity could classify interest received either as cash flows from operating activities or as cash flows arising from investing activities in the statement of cash flows if the entity has interest income from a financial asset (not a main business activity) that is classified in the operating category of the statement of profit or loss. However, the staff expects these amounts to be immaterial, hence the outcome is likely to be the same as if such an entity were to apply the model for general corporates for interest received (cash flows arising from investing activities).

41. The accounting policy choice such entities will have whenever interest income or expense or dividend income is classified in more than one category in the statement of profit or loss will not:

    (a) lead to full alignment between the statement of profit or loss and the statement of cash flows in all cases; or

    (b) lead to full compatibility between entities.

42. However, the IASB never intended to achieve full alignment within the scope of this project as it was considered too costly for entities to be required to split interest received and paid and dividends received between different categories (see paragraph BC199 of the Exposure Draft). In addition, the IASB decided not to require entities to classify all interest received and paid and dividends received as cash flows from operating activities (full comparability) for the reasons laid out in paragraph BC204 of the Exposure Draft.[15] Likewise, reverting back to the current requirements in IAS 7 is likely to maintain comparability issues.

43. We therefore continue to think the 'single category' approach introduced by the IASB in the Exposure Draft is the appropriate approach. This is because it is a simple solution that is not likely to require much change in current practice for entities with specified main business activities. It would however enhance current requirements by removing the outright choices currently permitted by IAS 7.

44. The staff acknowledges that a comprehensive review of the statement of cash flows may result in a change to requirements in the future—making any costs needed to implement these proposals potentially undue. However, we recommend the IASB confirms the proposals in the Exposure Draft because:

    (a) it would enhance the requirements in IAS 7, with limited practice changes; and

[15] Specifically, the IASB considered such an approach to be inconsistent with the proposed definition of financing activities in IAS 7. In addition, such an approach would not have led to alignment of operating profit or loss with the operating cash flows category in the statement of cash flows—leading to the difference between cash flows from operating activities and operating profit or loss being a poorer measure of operating accruals than the difference that would result from applying the proposals in the Exposure Draft.

(b) both the scope and timing of a project on the statement of cash flows will be decided in the future.

Question for the IASB
2. Does the IASB agree with the staff recommendation to confirm the proposals in the Exposure Draft to require an entity with specified main business activities to classify the following cash flows each in a single category of the statement of cash flows (that is, either as operating, investing or financing activities): (a) dividends received (other than dividends from associates and joint ventures accounted for using the equity method); (b) interest paid; and (c) interest received?

Appendix A—Extracts from the Exposure Draft and the Basis for Conclusions

A1. The paragraph from [Draft] IFRS X *General Presentation and Disclosures* is reproduced below.

> 51 If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either (see paragraphs B28–B29):
>
> (a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
>
> (b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.
>
> Such income and expenses are instead classified in the operating category.

A2. The paragraphs from the [Draft] Amendments to other IFRS Standards are reproduced below.

IAS 7 Statement of Cash Flows

> 14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:
>
> (a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) [deleted]

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; ~~and~~

(g) cash receipts and payments from contracts held for dealing or trading purposes~~.~~; and

(h) some cash receipts and payments of dividends and interest as described in paragraphs 34B–34C.

31 Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period ~~as either operating, investing or financing activities~~ applying paragraphs 33A and 34A–34C.

33A An entity shall classify dividends paid as cash flows from financing activities.

34A An entity, other than those entities described in paragraph 34B, shall classify:

(a) interest paid as cash flows from financing activities. This includes interest that is capitalised as part of the cost of an asset applying IAS 23.

(b) interest and dividends received as cash flows from investing activities.

34B An entity that provides financing to customers as a main business activity or invests in the course of its main business activities in assets that generate a return individually and largely independently of other resources held by the entity shall classify the following cash flows each in a single category of the statement of cash flows (that is, either as operating, investing or financing activities):

(a) dividends received (other than those described in paragraph 38A);

(b) interest paid; and

(c) interest received.

34C When applying paragraph 34B, an entity shall refer to the classification of the income or expenses corresponding to such cash flows in the statement of profit or loss:

(a) if the entity classifies related income or expenses in a single category of the statement of profit or loss, the entity shall classify the cash flows in the corresponding category in the statement of cash flows; or

(b) if the entity classifies related income or expenses in more than one category of the statement of profit or loss, the entity shall make an accounting policy choice to classify the cash flows in one of the corresponding categories of the statement of cash flows.

34D For example, an entity applying paragraph 34C would classify interest paid:

(a) as cash flows from financing activities if the entity classifies all its interest expenses in the financing category of the statement of profit or loss; or

(b) in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities if the entity classifies some of its interest expenses in the operating category and some of its interest expenses in the financing category of the statement of profit or loss.

A3. The paragraphs from the Basis for Conclusions on the Exposure Draft are reproduced below.

BC189 IAS 7 permits entities to choose an accounting policy for classifying interest and dividend cash flows in the statement of cash flows. As a result, classification varies, even among entities in the same industry.

BC190 The Board proposes to remove this classification choice for most entities, because users of financial statements have indicated that the diversity in classification between entities in the same industry:

(a) reduces comparability, making their analysis more difficult; and

(b) is often not meaningful—that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in the entity's business activities.

BC197 The Board expects the proposed approach in paragraph BC196 to align the classification of interest and dividends in the statement of cash flows with the classification in the statement of profit or loss in most cases. The Board acknowledges that this approach does not achieve full alignment. For example:

(a) interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows; and

(b) interest capitalised as part of the cost of an item of property, plant and equipment would be recognised in profit or loss through depreciation expenses, which would be included in operating profit or loss, whereas capitalised interest paid would be included in cash flows from financing activities.

However, the Board concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment.

BC199 The Board considered whether to require the entities described in paragraph BC195(a) to fully align the classification of dividends received and interest paid and received with the classification of the related income and expenses in the statement of profit or loss. However, the Board rejected this approach because it may be costly for entities to split dividends received and interest paid and received between different categories of the statement of cash flows when the related income and expenses are classified in multiple categories of the statement of profit or loss. The Board also understands that some users of financial statements question the usefulness of the statement of cash flows for entities of the type described in paragraph BC195(a) and, therefore, the benefits of such an approach may not outweigh the costs.

BC200 Instead, the Board proposes to require the entities described in paragraph BC195(a) to classify each type of cash flow (dividends received, interest paid and interest received) in a single category of the statement of cash flows, even if related income and expenses are in more than one category in the statement of profit or loss. The Board prefers this approach over full alignment because:

(a) the presentation of cash flows is simplified, in that each type of cash flow is classified in a single category of the statement of cash flows; and

(b) the classification of each type of cash flow in a single category is consistent with current practice and with the Board's proposed approach in paragraph BC196.

BC204 However, the Board rejected the approach described in paragraph BC193(b) because:

(a) the approach would be inconsistent with the proposed definition of financing activities in IAS 7. The definition in IAS 7 captures interest paid, but applying this approach interest paid would be classified as cash flows from operating activities.

(b) the approach would not align operating profit or loss with the operating cash flows category of the statement of cash flows (see paragraph BC194). As a consequence, the difference between cash flows from operating activities and operating profit or loss would be a poorer measure of operating accruals than the difference that would result from applying the Board's proposed approach (see paragraph BC188(b)).

Appendix B—Classification of interest and dividends

Entities other than those with specified main business activities (general corporates)

	Classification in the statement of profit or loss (reflecting IASB tentative decisions to date)	Classification in the statement of cash flows (reflecting IASB tentative decisions to date)
Interest revenue / interest received from financial assets arising from providing financing to customers (for example, trade receivables and lease receivables)	operating	investing[16]
Interest income / interest received from cash and cash equivalents	investing (ED proposal: financing)	investing
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	financing	financing (contribution paid to pension plans is classified as cash flows from operating activities; see also footnote 5 in paragraph 3)
Capitalised interest under IAS 23 *Borrowing costs*	operating (in the form of depreciation or impairment)	financing

[16] Assumes that interest received from customers would be required to be split out from the 'change of trade receivables' and classified as cash flows arising from investing activities (as proposed in this paper).

Share of profit of loss / dividends received from associates and joint ventures accounted for using the equity method	investing	investing

Entities that invest in financial assets as a main business activity

	Classification in the statement of profit or loss (reflecting IASB tentative decisions to date)	Classification in the statement of cash flows (reflecting IASB tentative decisions to date)
Interest revenue / interest received from financial assets (including from cash and cash equivalents and from financial assets arising from providing financing to customers)	operating	operating
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	financing	financing (contribution paid to pension plans is classified as cash flows from operating activities; see also footnote 5 in paragraph 3)
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	operating	operating
Share of profit or loss / dividends received from associates and joint ventures accounted for using the equity method	investing	investing

Entities that invest only in non-financial assets as a main business activity

	Classification in the statement of profit or loss (reflecting IASB tentative decisions to date)	Classification in the statement of cash flows (reflecting IASB tentative decisions to date)
Interest revenue / interest received from financial assets (including from cash and cash equivalents and from financial assets arising from providing financing to customers)	For financial assets arising from providing financing to customers: operating For other financial assets: investing	Accounting policy choice: single category (either operating or investing)
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	financing	financing (contribution paid to pension plans is classified as cash flows from operating activities; see also footnote 5 in paragraph 3)
Dividend income / dividends received from financial assets (including investments in associates and joint ventures accounted for using the equity method)	investing	investing

Entities that provide financing to customers and invest in financial assets as a main business activity

	Classification in the statement of profit or loss (reflecting IASB tentative decisions to date)	Classification in the statement of cash flows (reflecting IASB tentative decisions to date)
Interest revenue / interest received from financial assets (including cash and cash equivalents and financial assets arising from providing financing to customers)	operating	operating
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	For interest expense from liabilities that arise from transactions that involve only the raising of finance: accounting policy choice to classify in the operating category either: (i) all income and expenses from these liabilities; or (ii) the portion related to providing financing to customers as a main business activity For interest expense from other liabilities: financing	Accounting policy choice: single category (either operating or financing) (contribution paid to pension plans is classified as cash flows from operating activities; see also footnote 5 in paragraph 3)
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	operating	operating
Share of profit or loss / dividends received from associates and joint ventures accounted for using the equity method	investing	investing

Entities that provide financing to customers as a main business activity but do not invest in financial assets as a main business activity

	Classification in the statement of profit or loss (reflecting IASB tentative decisions to date)	Classification in the statement of cash flows (reflecting IASB tentative decisions to date)
Interest revenue / interest received from financial assets (including cash and cash equivalents and financial assets arising from providing financing to customers)	For financial assets arising from providing financing to customers: operating For cash and cash equivalents: accounting policy choice to classify in the operating category either: (i) all income and expenses from cash and cash equivalents; or (ii) the portion related to providing financing to customers as a main business activity[17] For other financial assets: investing	Accounting policy choice: single category (either operating or investing)
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	For interest expense from liabilities that arise from transactions that involve only the raising of finance: accounting policy choice to classify in the operating category either: (i) all income and expenses from these liabilities; or (ii) the portion related to providing financing to customers as a main business activity For interest expense from other liabilities: financing	Accounting policy choice: single category (either operating or financing) (contribution paid to pension plans is classified as cash flows from operating activities; see also footnote 5 in paragraph 3)

[17] Withdrawal of this accounting policy choice was explored in targeted outreach (see Agenda Paper 21A of this meeting). The IASB will discuss this accounting policy choice in a future agenda paper.

Dividend income / dividends received from financial assets (including investments in associates and joint ventures accounted for using the equity method)	investing	investing