Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Presentation and Disclosure in Financial Statements by Not-for-Profit and Superannuation Entities	**Meeting:**	AASB 3 July 2025 (M213)
Topic:	Dividend and interest cash flow classification	**Agenda Item:**	3.1
		Date of paper:	17 June 2025
Contact(s):	Patricia Au pau@aasb.gov.au Angus Thomson athomson@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	High
		Project Status:	Consider cash flow statement presentation

Objective of this paper

1 In respect to the classification of dividend and interest cash flows, the objectives of this paper are for the Board to:

(a) **consider** the amendments made to AASB 107 *Statement of Cash Flows* by AASB 18 *Presentation and Disclosure in Financial Statements*; and

(b) **decide** whether to propose modifying AASB 107 for application by the following entities in preparing their Tier 1 general purpose financial statements (GPFS):

(i) not-for-profit (NFP) public sector entities, including entities applying AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;

(ii) universities;

(iii) for-profit public sector entities; and

(iv) entities applying AASB 1056 *Superannuation Entities*.

Introduction – Amendments to AASB 107 made by AASB 18

2 AASB 107 sets out requirements for classification of dividend and interest cash flows and has been amended by AASB 18. The box below contains the text of the version of AASB 107 that pre-dates AASB 18 and the amendments set out in AASB 18 Appendix D *Amendments to other Australian Accounting Standards*. Paragraphs 33A and 34A–34D are added. Paragraphs 33 and 34 are deleted. New text is underlined and deleted text is struck through.

Interest and dividends

31 Cash flows from interest and dividends received and paid shall each be presented ~~disclosed~~ separately. Each shall be classified in a consistent manner from period to period applying paragraphs 32, 33A and 34A–34D~~as either operating, investing or financing activities~~.

32 The total amount of interest paid during a period is included ~~disclosed~~ in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with AASB 123 *Borrowing Costs*.

33 [Deleted]~~Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.~~

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

34 [Deleted]~~Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.~~

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

(a) interest paid (as described in paragraph 32) as cash flows from financing activities.

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

34B An entity that invests in assets or provides financing to customers as a main business activity (as determined applying paragraphs B30–B41 of AASB 18) shall determine how to classify dividends received, interest received and interest paid in the statement of cash flows by referring to how – applying AASB 18 – it classifies dividend income, interest income and interest expenses in the statement of profit or loss. An entity shall classify the total of each of these cash flows in a single category in the statement of cash flows (that is, either as operating, investing or financing activities).

34C In applying paragraph 34B, if an entity classifies the total of each of dividend income, interest income and interest expenses in a single category of the statement of profit or loss, the entity shall classify the total of each of dividends received, interest received and interest paid as cash flows arising from the associated activity in the statement of cash flows. For example, if an entity classifies all its interest expenses in the financing category of the statement of profit or loss, the entity would classify all its interest paid as cash flows from financing activities.

34D In applying AASB 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

3 The following table provides a summary of the requirements in AASB 107, before and after incorporating the AASB 18 amendments.

<table>
<tr><th rowspan="2">Cash flow item</th><th rowspan="2">Classification before incorporating AASB 18 amendments</th><th colspan="2">Classification after incorporating AASB 18 amendments</th></tr>
<tr><th>Entities with no specified main business activities</th><th>Entities with specified main business activities (relevant for superannuation entities)[1]</th></tr>
<tr><td>Dividends paid</td><td>Operating or financing
[AASB 107.34]</td><td>Financing
[AASB 107.33A]</td><td>Financing
[AASB 107.33A]</td></tr>
<tr><td>Dividends received</td><td>Operating or investing
[AASB 107.33]</td><td>Investing
[AASB 107.34A(b)]</td><td rowspan="3">A single category for each item – operating, investing or financing.
Classify cash flows in the same category as the income statement
OR
Accounting policy choice if associated income and expenses are recognised in more than one income statement category
[AASB 107.34B–34D]</td></tr>
<tr><td>Interest paid</td><td>Operating or financing
[AASB 107.33]</td><td>Financing
[AASB 107.34A(a)]</td></tr>
<tr><td>Interest received</td><td>Operating or investing
[AASB 107.33]</td><td>Investing
[AASB 107.34A(b)]</td></tr>
</table>

4 In this agenda item, the version of AASB 107 that incorporates the amendments in AASB 18 is referred to as the revised AASB 107.

5 The version of AASB 107 that pre-dates AASB 18 and is currently effective provides an accounting policy choice for entities to classify dividend and interest cash flows as cash flows from operating activities. If the revised AASB 107 remains unamended, NFP public sector entities and universities that do not either invest in assets or provide financing to customers as a main business activity would no longer be able to classify these items as operating cash flows for periods beginning on or after 1 January 2028.

Dividends paid

6 Public sector stakeholders did not raise concerns about classifying dividends paid as financing cash flows. This classification is consistent with the requirements in the Government Finance Statistics (GFS).[2]

7 Staff observed that superannuation entities do not pay dividends because any surplus in a period is attributable to members of a superannuation fund.[3] Therefore, removing the accounting policy choice to classify dividends paid as operating activities does not affect superannuation entities.

1 AASB 18 describes 'entities with specified main business activities' as entities with a main business activity of investing in assets or providing financing to customers. Superannuation entities are considered to have a main business activity of investing in assets.

2 As set out in the *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (ABS GFS Manual) published by the Australian Bureau of Statistics (ABS).

3 This is the case for all types of Registrable Superannuation Entity (RSE) – even those that are operated by shareholder owned entities. Shareholder owned entities operating RSEs generate revenues/profits from charging their RSEs fees for services rendered.

8 Accordingly, the main focus of the remainder of this paper is the classification of dividends received and interest paid and received.

Overview of staff analysis

9 Based on stakeholder feedback, staff consider that it is justifiable under the *AASB Not-for-Profit Entity Standard-Setting Framework* (Standard-setting framework) for NFP public sector entities (including Whole of Government and General Government Sector and local government entities) and universities to depart from the revised AASB 107, at least until the Board considers the results of the IASB's project on statement of cash flows and related matters and the IPSASB's Presentation of Financial Statements project.

10 However, in respect to for-profit public sector entities, staff consider that further input from stakeholders on the costs versus benefits is needed to determine whether there would be merit in them departing from the revised AASB 107.

11 At its May 2025 meeting, the Board decided that superannuation entities should not be required to classify income and expenses into the operating, financing and investing categories. Consistent with that decision, superannuation entities would not apply paragraphs 34B–34D of the revised AASB 107 (which requires consideration of income statement categorisation). Accordingly, superannuation entities would need to depart from the revised AASB 107.

Structure of this paper

12 The rest of the paper is structured as follows:

(a) Section 1: Considerations for public sector entities and universities

(b) Section 2: Considerations for superannuation entities

(c) Appendix A: IASB's rationale for amending dividend and interest cash flow classification, and project on statement of cash flows and related matters

(d) Appendix B: GFS cash flow classifications.

Section 1: Considerations for public sector entities and universities

13 All public sector entities, including for-profit entities, and universities currently classify dividends received and interest paid and received as operating cash flows. Stakeholders raised significant concerns about prohibiting these entities from continuing to classify these items as operating cash flows.

14 This Section is structured as follows:

(a) Section 1.1: Stakeholder feedback from targeted outreach and applying the Standard-setting framework

(b) Section 1.2: The IASB's rationale for amending IAS 7 *Statement of Cash Flows*

(c) Section 1.3: Cross-cutting IASB and IPSASB projects

(d) Section 1.4: Staff assessment and recommendations

1.1: Stakeholder feedback from targeted outreach and applying the Standard-setting framework

15 In May 2025, staff requested input from the following stakeholders on dividend and interest cash flow classification:

(a) the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC); and

(b) the Financial Reporting and Accounting Committee of the Australasian Council of Auditors-General (ACAG-FRAC).

16 HoTARAC provided a collective response. Two Treasury Offices that agreed with the views expressed in the HoTARAC response provided additional information in writing. Staff also received verbal feedback from a representative of another Treasury Office during an interview. Additionally, three Audit Offices submitted their responses.

17 The questionnaire used for consultation with stakeholders and the written responses received are presented as Agenda Paper 3.4 in the supplementary folder.

18 Staff have categorised respondents' feedback in accordance with the justifiable circumstances for sector-specific modification described in the Standard-setting framework. The justifiable circumstances include:

(a) terminology differences, current practice issues, and variations in the accountability or regulatory framework, as well as differences in governance or financial management associated with public sector entities (paragraph 30(g) of the Standard-setting framework); and

(b) whether the costs of preparing and disclosing information required under a Standard (in this case, the revised AASB 107) outweigh the benefits to users of public sector entity GPFS (paragraph 30(h) of the Standard-setting framework).

Feedback relating to current practice

19 Feedback from stakeholders noted the following matters regarding current practices adopted by public sector entities.

(a) Whole of Government and General Government Sector (GGS) entities classify dividends received and interest paid and received as operating cash flows, consistent with GFS[4] and AASB 1049.13.[5] This cash flow classification is also required in preparing budget papers in accordance with the [Uniform Presentation Framework]() (UPF).[6]

(b) All entities, including for-profit entities, in the Commonwealth Government and state and territory governments also classify dividend and interest cash flows in the same classification as Whole of Government and GGS. Stakeholders explained that Treasury Offices mandate this classification to assist Whole of Government and GGS consolidations.

(c) Based on staff investigations and feedback from one Audit Office (that audits local government entities and universities in its jurisdiction), it appears that most local councils and universities also classify dividends received and interest paid and received as operating cash flows.[7]

Feedback relating to public-sector-specific governance and financial management structure

20 HoTARAC and Treasury Offices expressed significant concerns that classification in accordance with the revised AASB 107 would not reflect the nature or purpose of the cash flows by public sector entities. There comments are summarised below.

(a) Debt financing of government activities, for both NFP and for-profit public sector entities, is typically managed centrally with funding provided to consolidated fund and advanced to government departments and public sector entities. Entities responsible for undertaking debt financing would be doing so as a main business activity, meaning it is operating in character. Any allocation of debt financing charges to other entities would be to help ensure a relevant total cost of those entities' operations is recognised. Therefore, a public sector entity's interest expense would typically be associated with operating activities.

(b) NFP public sector entities, and from time to time local councils and for-profit public sector entities, receive cash from government in a range of ways to fund their operations (appropriations, grants, allocations of centrally raised debt). Making an 'operating' versus 'financing' distinction has less relevance than in the private sector where there are typically material cash flows from different counterparties (for example, revenue from customers versus capital from debtholders).

(c) Public sector entities use dividend and interest receipts to fund their service delivery. Classifying these cash flows as investing/financing activities would not reflect that these funds are applied

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4 As set out in clauses 12.9 and 12.22 of the ABS GFS Manual.

5 AASB 1049.13 states "… where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. **Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied**." [emphasis added]

6 Since 1992, the Commonwealth, State and Territory governments have been preparing budget papers in accordance with the UPF. The UPF requires estimates presented within the cash flow statement in accordance with the principles and requirements in the ABS GFS Manual.

7 Except for the interest portion of lease liability – the local councils in a few jurisdictions and some for-profit controlled entities of universities classify the interest portion of the lease liability within financing activities to be consistent with the payment for the principal portion. Paragraph 50 of AASB 16 *Leases* states that a lessee shall classify cash payments for the principal portion of the lease liability within financing activities, and cash payments for the interest portion of the lease liability in accordance with AASB 107 for interest paid (which currently permits classifying as operating or financing cash flows).

to the operations of public sector entities. The net cost of services is often a significant focus for NFP public sector entities in particular, rather than profit from operating activities.

Feedback relating to the costs and the absence of benefits of applying the revised AASB 107

21 All respondents emphasised the importance for all public sector entities within a jurisdiction to classify dividend and interest cash flows consistently to promote comparability of GPFS. Two of the three Audit Offices did not express significant concerns with applying the revised AASB 107 to public sector entities. However, all other respondents expressed a strong preference for retaining the current classifications for dividend and interest cash flows for all public sector entities. These respondents have significant concerns with applying the revised AASB 107, which are summarised below.

(a) GFS specifies certain line items to be classified in each of the operating, investing and financing cash flows (Appendix B lists out those line items for the Board's information). Changing the classification of dividend received and interests paid and received would create a divergence between cash flow statements prepared under the revised AASB 107 and those prepared in the budget papers (prepared in accordance with GFS). This divergence would be a potential source of confusion for users of government financial statements and budget papers.

(b) The current classification of dividends received and interest paid and received as operating cash flows has been applied consistently for many years. There is no evidence indicating that classifying these items in accordance with the revised AASB 107 would provide more useful information to users of public sector entities' financial statements. One Audit Office recommended the AASB investigate whether applying the revised AASB 107 classification would provide more relevant information to users before considering whether to introduce this change to the public sector. [The IASB's rationale in revising IAS 7 is discussed in Section 1.2.]

(c) Further to point (b), and as noted in paragraph 20, there appears to be evidence that the current classification of dividends received and interest paid and received as operating cash flows provides relevant information to users of NFP public sector entities' financial statements.

(d) Other than two Audit Offices, all respondents were concerned with the costs and effort required to reclassify cash flow classifications to facilitate Whole of Government consolidation and the preparation of budget papers in accordance with GFS. They commented that there is no evidence that any benefits from changing the current classification would outweigh the costs.

Staff view

22 Based on stakeholder feedback and in the context of the Standard-setting framework, staff consider that:

(a) in respect to NFP public sector entities and universities, it would be beneficial to investigate whether classifying dividend received and interest paid and received as operating cash flows or the classifications under the revised AASB 107 would provide more useful information to users; and

(b) in respect to for-profit public sector entities, more information about the costs versus benefits is needed to determine whether there would be merit in them departing from the revised AASB 107. This is further discussed in Section 1.4.

23 The discussions in Sections 1.2 and 1.3, while having relevance to for-profit public sector entities, have been drafted to specifically discuss the circumstances in NFP public sector entities.

1.2: The IASB's rationale for amending IAS 7 *Statement of Cash Flows*

24 This section seeks to explore the problems relating to dividend and interest cash flows that the IASB have identified and addressed in revising IAS 7 through IFRS 18.

25 The IASB notes in paragraph BC48 of the Basis for Conclusions added to IAS 7 (summarised in Appendix A) that the modifications to IAS 7 are in response to feedback from users of financial statements indicating that the accounting policy choice for an entity to choose to classify dividend and interest cash flows as operating, investing or financing activities:

(a) reduces comparability, making their analyses 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 an entity's business activities.

26 Staff note that the IASB's reasoning is less relevant to the public sector. This is because:

(a) as discussed in Section 1.1, all public sector entities within a jurisdiction have been classifying dividend and interest cash flow consistently in GPFS and in budget papers. Changing the cash flow classification in GPFS presentation would reduce the comparability with budget papers, which would in turn make users' analysis of public sector entity's GPFS and performance more difficult; and

(b) as discussed in paragraph 20, classifying interest paid and received as financing cash flows and dividends received (which are mainly from public sector entities that are controlled by the government) as investing activities might not be meaningful to users. These cash flows are used to fund service delivery and might be better suited to be classified as operating cash flows.

Interaction with the income statement

27 The IASB modified IAS 7 in view of the income statement categorisation introduced in IFRS 18. The IASB notes in paragraph BC50 that it decided to adopt "a single category approach to classifying dividends received and interest paid and received. This approach generally seeks to align the classification in the statement of profit or loss with the classification in the statement of cash flows. Consequently, the classification of dividends received and interest paid and received depends on the entity's main business activities (as determined in accordance with IFRS 18)."

28 Since the Board decided not to require NFP public sector entities or universities to classify income and expenses into the AASB 18 categories in the income statement, it seems logical, as least as an interim step, to continue to permit these entities to classify dividends received and interest paid and received as operating cash flows. Staff consider that it would be prudent to not introduce changes to cash flow statement presentation unless evidence emerges that classifying these items as operating cash flows is inappropriate for NFP public sector entities and universities.

1.3: Cross-cutting IASB and IPSASB projects

29 The IASB has an active project on statement of cash flows and related matters. Appendix A provides a high-level overview of the direction of that project as described on the IASB's website.

30 The IASB decided that its project will assess potential ways to improve areas in the requirements of IAS 7 where its stakeholders have indicated perceived deficiencies. This includes, but is not limited to:

(a) the disaggregation of cash flow information in the financial statements;

(b) the transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards; and

(c) the consistent application of requirements to classify cash flows as operating, investing or financing.

31 Staff consider that any future guidance or amendments to IAS 7 arising from the IASB project, particularly those relating to the three aspects noted in paragraph 30, might be relevant to the NFP public sector and universities. The draft timeline for the project considered by the IASB at its May 2025 meeting suggests that it is expecting to decide whether to publish a consultation paper to further amend IAS 7 after the fourth quarter of 2026.

32 Staff consider merit in not removing the current policy choice for NFP public sector entities and universities to elect to classify dividends received and interest paid and received as operating cash flows, at least until the Board considers any further amendments to IAS 7 that might arise from the IASB project.

33 The IPSASB is undertaking its own Presentation of Financial Statements project. As part of the project, the IPSASB will assess the application of IFRS 18 requirements in the NFP public sector, including considering any consequential amendments to the cash flow statement presentation. Because the IPSASB's policy papers[8] include consideration of maintaining consistency with GFS when developing IPSAS, the IPSASB's future deliberations on the classification of dividend and interest cash flows and the feedback from international stakeholders would likely provide input to the Board's consideration of whether classifying dividend and interest cash flows consistently with GFS might provide more useful information to users than the classifications under the revised AASB 107.

1.4: Staff assessment and recommendations

34 This section outlines staff assessment and recommendations for each entity type.

(a) Whole of Government and GGS consolidated entities

Nature of entity	These entities are required to: (a) comply with AASB 1049, which requires them to apply the principles and rules in GFS in preparing GPFS where compliance with GFS would not conflict with Australian Accounting Standards (AASB 1049.13); and (b) prepare budget papers in accordance with the UPF, which is consistent with GFS.
Justification under the Standard-setting framework	It is justifiable to permit these entities to continue classifying dividend and interest cash flows in accordance with GFS and the UPF. This would enable users to continue to: (a) compare the cash flow statements in GPFS and budget papers; and (b) compare the GPFS and budget papers of governments in Australia with those of other jurisdictions' governments.

8 IPSASB Policy Papers: the *Process for Considering GFS Reporting Guidelines during Development of IPSASs* and the *Process for Reviewing and Adapting IASB Documents*.

(c) Entities within the GGS

Nature of entity	These entities are budget-dependent entities that are consolidated into GGS and Whole of Government. GGS entities make up a significant majority of the Whole of Government.
Justification under the Standard-setting framework	It is justifiable to permit these entities to continue classifying dividend and interest cash flows in accordance with government mandates (to be consistent with GFS). Staff did not identify a compelling reason to modify the current accounting policy choice, this is because: (a) as noted by stakeholders (see paragraph 20), the unique governance and financial management structure of these entities means that classifying dividends received and interest paid and received as operating cash flows might provide more relevant information to users about the nature of these cash flows; (b) as discussed in paragraph 26, the problems that IASB was addressing in modifying IAS 7 are not concerns for the Australian public sector; (c) there are no identifiable benefits to users of GPFS related to adopting the revised AASB 107 classification that would justify the costs and effort for these entities to change their cash flow classifications. The cost is exacerbated because further costs would be incurred for GGS consolidation if entities within the GGS classify cash flows differently from the requirements in GFS; and (d) there is a possibility of further changes to cash flow statement presentations arising from ongoing IASB and IPSASB projects, and it would be prudent to not introduce changes to these entities' cash flow statements until the Board considers any further changes to AASB 107.

(d) Local government entities

Nature of entity	These entities are NFP entities but are not consolidated into Whole of Government.
Justification under the Standard-setting framework	For the same reasons noted in points (a), (b) and (d) in the assessment relating to entities within the GGS, it would be justifiable to permit local government entities to continue classifying dividend and interest cash flows in accordance with government mandates.

(e) Universities

Nature of entity	These entities are NFP entities but are not consolidated into Whole of Government.
Justification under the Standard-setting framework	It would be justifiable to permit these entities to continue classifying dividend and interest cash flows in accordance with government mandates. Australian universities are required to prepare financial statements based on the format in the financial statements guidelines published by the Commonwealth

	Department of Education. The format is approved by the Australian Government Minister for Education, or their delegates. Since 2008, the Commonwealth Department of Education has published annual financial information (including cash flow information) of all Australian higher education providers. The cash flow statement format in those publications classifies dividends received and interest paid and received as operating cash flows.[9] To date, there is no evidence suggesting that different classifications of these items would provide more relevant information to users of universities' GPFS.

Staff recommended proposal to include in Exposure Draft for the entities described in (a)–(d): Retain the current policy choice for these entities to elect to classify dividends received and interest paid and received as operating cash flows as an interim step, at least until the Board considers the results of the IASB and the IPSASB projects.

(f) For-profit public sector entities that are consolidated into Whole of Government

Nature of entity	These entities are typically not dependent on government funding and are generally self-sufficient from the cash flows they generate in providing goods and services.
Justification under the Standard-setting framework	Although all stakeholders who responded to the questionnaire emphasised the importance for all public sector entities to classify dividend and interest cash flows consistently, the feedback did not identify a compelling reason for for-profit public sector entities to depart from the revised AASB 107. Under paragraph 30(a) of the *AASB For-Profit Entity Standard-Setting Framework*, the Board's default position is to use IFRS Standards and transaction neutrality as a starting point. The Board typically does not modify Australian Accounting Standards for these entities, and more information about the costs versus the benefits of complying with the revised AASB 107 is needed to determine whether there is merit for these entities to depart from the Standard.
Staff recommended proposal to include in Exposure Draft	Require these entities to comply with the revised AASB 107. Add specific matters for comment in the Exposure Draft to request further input from stakeholders on the following matters: (a) whether it would be more important for the cash flow statements of these entities to be comparable with for-profit entities in the private sector or with NFP public sector entities; (b) the importance for these entities to have consistent classification of dividend and interest transactions between the income statement and the cash flow statement (noting that the Board has decided that these entities should be required to classify income and expenses into the operating, financing and investing categories in accordance with AASB 18); and

9 These reports are published on the Commonwealth Department of Education's website, which can be accessed here.

	(c) the costs and effort required to adjust the cash flows classification of these entities to facilitate Whole of Government consolidation and how they weigh against the benefits of complying with the revised AASB 107.

Questions for Board members:

Q1: For each of the following entity type, do Board members agree with the staff recommendation to propose retaining the current policy choice for these entities to elect to classify dividends received and interest paid and received as operating cash flows as an interim step, at least until the Board considers the results of the IASB's project on statement of cash flows and related matters and the IPSASB's Presentation of Financial Statements project?

(a) Whole of Government and GGS entities applying AASB 1049

(b) Entities within the GGS

(c) Local government entities

(d) Universities.

Q2: In respect to for-profit public sector entities, do Board members agree with the staff recommendation to:

(a) propose in the Exposure Draft that these entities would be required to comply with the revised AASB 107; and

(b) add specific matters for comment in the Exposure Draft to request further input from stakeholders on the matters described in the table in paragraph 34(e)?

Section 2: Considerations for superannuation entities

35 Paragraph 33 of the version of AASB 107 that pre-dates AASB 18 states that "Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution." Consistent with that paragraph, staff observed that superannuation entities classify dividends received and interest paid and received as operating activities.

36 In accordance with paragraphs 34B–34D of the revised AASB 107, an entity with specified main business activities would be required to classify dividends received and interest paid and received as a single category for each item, and:

(a) classify cash flows in the same category as the income statement; or

(b) make an accounting policy choice if associated income and expenses are recognised in more than one income statement category.

37 All stakeholders who responded to the targeted consultations expressed the view that if superannuation entities were to categorise income and expenses in accordance with AASB 18, the income statements are likely to present:[10]

(a) all income and expenses in the operating category; and

(b) nil or immaterial balances in the investing and financing categories.

10 See Agenda Papers 5.3 for the May 2025 meeting.

38 That is, if a superannuation entity were to categorise income and expenses in accordance with AASB 18, applying paragraphs 34B–34D of the revised AASB 107, it would likely classify dividends received and interest paid and received as operating activities. This is because all associated income and expenses would be categorised in the operating category in the income statement.

39 The Board decided at its May 2025 meeting that superannuation entities should not be required to classify income and expenses into the operating, financing and investing categories. Consistent with that decision, superannuation entities would not apply paragraphs 34B–34D of the revised AASB 107 (which requires consideration of income statement categorisation). Therefore, paragraph 34B of the revised AASB 107 would not provide a basis for superannuation entities classifying dividends received and interest paid and received as operating cash flows.

40 Staff consider that the Board could propose modifying AASB 107 to either:

(a) retain the current accounting policy choice for superannuation entities to elect to classify dividends received and interest paid and received as operating cash flows (Option 1); or

(b) require superannuation entities to classify dividends received and interest paid and received as operating cash flows (Option 2).

41 Of the two options, staff recommend Option 1 on the basis that:

(a) it is consistent with the status quo. Currently, the Board does not specify a specific classification for dividends received and interest paid and received; and

(b) the IASB is undertaking a project on statement of cash flows and related matters, which could lead to further changes to the cash flow statements of financial institutions. The IASB decided at its May 2025 meeting that its project would include considering exemptions for financial institutions from some or all of the requirements for presenting a statement of cash flows.[11] Therefore, it might be prudent to not specify in an Australian Accounting Standard that a superannuation entity must classify these cash flow items as operating cash flows (Option 2).

Question for Board members:

Q3: Do Board members agree with adopting Option 1, to propose retaining the current accounting policy choice for superannuation entities to elect to classify dividends received and interest paid and received as operating cash flows?

11 Refer to paragraph A8 in Appendix A for other matters that the IASB decided to consider in its project.

Appendix A: IASB's rationale for amending dividend and interest cash flow classification, and project on statement of cash flows and related matters

A1 This appendix provides a high-level overview of:

(a) the IASB's rationale for amending dividend and interest cash flow classification as documented in paragraphs BC48–BC60 of the Basis for Conclusions (BC) added to IAS 7 (from page 131); and

(b) the IASB's current project on statement of cash flows and related matters.

IASB's rationale for amending dividend and interest cash flow classification

A2 Paragraphs BC48–BC60 of the BC added to IAS 7 documents the IASB's rationale in modifying dividend and interest cash flow classification. The rationale is summarised in paragraphs A3–A5.

A3 The IASB noted that users of financial statements indicated that the accounting policy choice for an entity to choose to classify interest and dividend cash flows as operating, investing or financing activities in its cash flow statement:

(a) reduces comparability, making their analyses 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 an entity's business activities (paragraph BC48).

A4 In respected to dividends paid, the IASB decided to require all entities to classify dividends paid as cash flows from financing activities because dividends paid are a cost of obtaining financing. In paragraph BC49, it stated that before the amendments, IAS 7 explained that classifying dividends paid as cash flows from operating activities may assist users of financial statements in determining an entity's ability to pay dividends out of operating cash flows. However, although this treatment has some merit, the IASB decided there is greater benefit in no longer allowing classification of dividends paid as cash flows from operating activities because:

(a) classifying dividends paid as a cash flow from operating activities does not provide a faithful representation of the operating cash flows. Dividend payments are financing in nature.

(b) when assessing cash flows available to pay dividends, users tend to use other measures, such as free cash flow, which take into account cash needed for capital expenditure.

(c) users can continue to compare dividends paid with cash flows from operating activities if they wish, because paragraph 31 of IAS 7 requires the separate presentation of dividends paid.

A5 In respect to dividends received and interest paid and received, in paragraph BC50 the IASB stated that it decided to adopt a single category approach to classifying dividends received and interest paid and received. This approach generally seeks to align the classification in the statement of profit or loss with the classification in the statement of cash flows. Consequently, the classification of dividends received and interest paid and received depends on the entity's main business activities (as determined in accordance with IFRS 18).

IASB's project on statement of cash flows and related matters

A6 In September 2024, the IASB started a project on the statement of cash flows and related matters in response to the feedback on its Third Agenda Consultation that indicated perceived deficiencies with the current requirements of IAS 7. The IASB undertook research to explore the nature and extent of possible improvements to the requirements in IAS 7.

A7 At its 20 May 2025 meeting, the IASB decided that its project will assess potential ways to improve:

(a) the disaggregation of cash flow information in the financial statements;

(b) the reporting of information about non-cash transactions in the financial statements;

(c) the transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards;

(d) the consistent application of requirements to classify cash flows as operating, investing or financing; and

(e) the consistent application of the definition of 'cash equivalents'.

A8 In respect to the statement of cash flows for financial institutions, the IASB decided that its approach would consider:

(a) improvements to the statement of cash flows generally before deciding how any changes might apply to the requirements for financial institutions;

(b) exemptions for financial institutions from some or all of the requirements for presenting a statement of cash flows; and

(c) any presentation or supplementary disclosure requirements specific to financial institutions that might enhance the usefulness of information about cash flows for such entities.

A9 The draft timeline for the project considered by the IASB at its May 2025 meeting suggests that it is expected to decide whether to publish a consultation paper to amend IAS 7 after the fourth quarter of 2026. The draft timeline is included below for the Board's reference.[12]

Draft timeline

Month	Disaggregation	Non-cash/other	MPM-SCF	Classification	C&CE	FI
Joint CMAC-GPF						
Q3 2025	Scoping	Scoping	Scoping			
ASAF						
Q4 2025		BS movements	Definitions	Scoping		
CMAC, GPF, ASAF						
Q1 2026	-Build on principles -Specific disclosure		Disclosure		Definition	
CMAC, GPF, ASAF, IC						
Q2 2026		-Other disclosure -Economically similar	Specified subtotals	Clarifying requirements	Principal agent	
Joint CMAC-GPF, ASAF, IC						
Q3 2026		Presentation		New requirements		FI Exemptions
Q4 2026						-FI Enhancements -FI Disclosures
Decision to issue consultation document						

12 The draft timeline has been extracted from page 26 of Agenda Paper 20A for the 20 May 2025 IASB meeting.

Appendix B: GFS cash flow classifications

The following table is extracted from Part C - The classification of sources and uses of cash 2015 of the ABS GFS Manual. It outlines the detailed classification of the statement of sources and uses of cash and their cash flow classification.

Table 12.3 - The detailed classification of the statement of sources and uses of cash (ETF 2)	
Descriptor	**Classification codes**
Cash flows from operating activities	**ETF 21**
Cash receipts from operating activities	**ETF 211**
Taxes received	ETF 2111SDC
Cash received from sales of goods and services	ETF 2112SDC
Grants and subsidies received	ETF 2113SDC
Income transferred from public corporations	ETF 2114SDC
Interest received	ETF 2115SDC
Cash receipts from operating activities not elsewhere classified	ETF 2119SDC
Cash payments for employee expenses	**ETF 212**
Cash paid for employee superannuation - defined contribution scheme	ETF 2121SDC
Cash paid for employee superannuation - defined benefit scheme	ETF 2122SDC
Salary sacrifice expenses - superannuation	ETF 2123SDC
Salary sacrifice expenses - items other than superannuation	ETF 2124SDC
Cash payments for employee expenses not elsewhere classified	ETF 2129SDC
Cash payments for non-employee expenses	**ETF 213**
Cash paid for the purchase of other goods and services	ETF 2131SDC
Subsidies paid	ETF 2132SDC
Grants paid	ETF 2133SDC
Other transfer payments	ETF 2134SDC
Interest paid	ETF 2135SDC
Distributions paid	ETF 2136SDC
Cash payments for non-employee expenses not elsewhere classified	ETF 2139SDC
Cash flows from investments in non-financial assets	**ETF 22**
Expenditure on non-financial assets (net)	**ETF 221**
Purchases of new non-financial assets	ETF 2211SDC
Purchases of second-hand non-financial assets	ETF 2212SDC
Sales of non-financial assets	ETF 2213SDC
Cash flows from transactions in financial assets for policy purposes	**ETF 23**
Advances paid (net)	**ETF 231**
Advances paid - concessional loans	ETF 2311SDC
Advances paid other than concessional loans	ETF 2312SDC
Repayments of advances	ETF 2313SDC
Equity acquisitions, disposals and sale of equity (net)	**ETF 232**
Equity acquisitions	ETF 2321SDC
Equity disposals and sale of equity	ETF 2322SDC
Cash flows from investments in financial assets for liquidity management purposes	**ETF 24**
Increase in investments	**ETF 241**
Increase in investments	ETF 2411SDC

Cash flows from financing activities	**ETF 25**
Advances received (net)	**ETF 251**
Advances received - concessional loans	ETF 2511SDC
Advances received other than concessional loans	ETF 2512SDC
Advances repaid	ETF 2513SDC
Borrowing (net)	**ETF 252**
Borrowing (net)	ETF 2521SDC
Deposits received	**ETF 253**
Increase in deposits received	ETF 2531SDC
Other financing (net)	**ETF 259**
Other financing not elsewhere classified (net)	ETF 2599SDC
Increase / (decrease) in cash held	**ETF 26**
Increase / (decrease) in cash held	**ETF 261**
Increase / (decrease) in cash held	ETF 2611SDC