
IFRS[®] Interpretations Committee meeting

Date	November 2025
Project	Assessment of a Specified Main Business Activity for the purposes of the Separate Financial Statements of a Parent (IFRS 18)
Topic	Initial consideration
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how a parent applying IFRS 18 *Presentation and Disclosure in Financial Statements* assesses, for the purposes of its separate financial statements, whether it has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. The outcome of that assessment affects how the parent classifies income and expenses from investments in unconsolidated subsidiaries in its statement of profit or loss.
2. The objective of this paper is:
 - (a) to provide the Committee with a summary of the matter;
 - (b) to present our research and analysis; and
 - (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure

3. This paper includes:
 - (a) [background and summary of the submission](#) (paragraphs 5–11);
 - (b) [evidence of ‘widespread and material effect’](#) (paragraphs 12–15);
 - (c) [staff analysis](#) (paragraphs 16–37);
 - (d) [whether to add a standard-setting project to the work plan](#) (paragraphs 38–40);
and
 - (e) [staff recommendation](#) (paragraphs 41–42).
4. There are two appendices to this paper:
 - (a) Appendix A—suggested wording of the tentative agenda decision; and
 - (b) Appendix B—submission.

Background and summary of the submission

5. Applying IFRS 18, an entity generally classifies income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries in the investing category in its statement of profit or loss. Paragraphs 49–50 of IFRS 18 require an entity to assess whether it has a main business activity of investing in particular types of assets (including associates, joint ventures and unconsolidated subsidiaries)—referred to as investing in assets. Paragraph 55 of IFRS 18 requires an entity that has a main business activity of investing in assets to classify income and expenses from those assets in the operating category in its statement of profit or loss (except for investments in associates, joint ventures and unconsolidated subsidiaries that are accounted for using the equity method).
6. In the fact pattern described in the submission, the reporting entity is an ultimate parent of a large group of entities. Its activities are limited to holding investments in group

undertakings, making decisions on the management, acquisition and disposal of investments and distributing returns on those investments to shareholders. The parent determines that it is not an investment entity as defined in IFRS 10 *Consolidated Financial Statements*.¹

7. In its separate financial statements, the parent accounts for its investments in subsidiaries at cost applying paragraph 10(a) of IAS 27 *Separate Financial Statements*. It does not provide to its shareholders any segmental analysis or use any subtotals to explain its operating performance related to its separate financial statements. The parent also does not use such metrics for internal monitoring purposes. Shareholders are provided segmental analysis and subtotals as indicators of the consolidated group's operating performance. For the purposes of the group's consolidated financial statements, no specified main business activity is identified.
8. The submitter asks whether the parent, for the purposes of its separate financial statements, has a main business activity of investing in assets. As noted in paragraph 5 of this paper, having a main business activity of investing in assets would result in classifying income and expenses from those assets in the operating category in the statement of profit or loss.
9. We note that:
 - (a) the submitter refers to the parent as having investments in 'group undertakings' but does not explicitly identify the type of assets the question relates to. The submission provides information only about investments in subsidiaries stating that they are accounted for at cost in separate financial statements. Consequently, our analysis and conclusion focus only on this type of asset.

¹ IFRS 10 *Consolidated Financial Statements* defines an 'investment entity' as an entity that (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

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- (b) consistent with paragraph B44(c) of IFRS 18², we use the term ‘unconsolidated subsidiaries’ to refer to parent’s investments.
10. The submitter identifies three views. Under these views, the parent:
- (a) **View 1**—has a main business activity of investing in assets. The parent therefore classifies income and expenses from investments in unconsolidated subsidiaries in the *operating category* in its separate financial statements.
 - (b) **View 2**—does not have a main business activity of investing in assets. The parent therefore classifies income and expenses from investments in unconsolidated subsidiaries in the *investing category* in its separate financial statements.
 - (c) **View 3**—has an accounting policy choice in its separate financial statements because neither View 1 nor View 2 can be dismissed and therefore either classification can be supported.
11. The submission—reproduced in [Appendix B](#)—includes further information about the views and the rationale for those views.

Evidence of ‘widespread and material effect’

12. The purpose of any information requests we send to stakeholders is to understand whether a submission meets the criteria in paragraph 5.16(a) of the IFRS Foundation’s [Due Process Handbook](#). We consider:
- (a) the prevalence of the transaction or fact pattern submitted; and
 - (b) whether there is widespread diversity in the accounting applied to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.

² Paragraph B44(c) of IFRS 18 states that investments in unconsolidated subsidiaries include investments in subsidiaries in separate financial statements accounted for at cost applying paragraph 10(a) of IAS 27.

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13. We did not send an information request related to this submission—and proceeded to analyse the question submitted—for the following reasons:
- (a) most entities are in the process of applying—but have not yet applied—IFRS 18. Accordingly, stakeholders would be unable to comment on the existence of diversity in the application of the applicable requirements.
 - (b) the submitter notes:
 - (i) entities of the type described in the submission—a parent preparing separate financial statements—are numerous in practice.
 - (ii) they are aware of entities concluding the requirements are unclear as those entities work through their IFRS 18 implementation projects.
 - (c) we have had informal conversations with some stakeholders (including, for example, accounting firms and preparers) that have confirmed the points in paragraph (b). Those stakeholders have informed us about discussions they have had on the same question as that raised by the submitter and these conversations have confirmed that stakeholders understand the applicable requirements differently.
14. In our view, the evidence gathered indicates the matter could have widespread effect and could have a material effect on those affected because:
- (a) entities of the type described in the submission—a parent preparing separate financial statements—are prevalent in practice.
 - (b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective. The outcome of a parent's assessment about whether it has a main business activity of investing in unconsolidated subsidiaries affects how it classifies income and expenses from those investments in its statement of profit or loss.

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15. We obtained sufficient understanding of the widespread effect of the matter from the evidence referred to in the submission and from discussions with stakeholders and, therefore, did not perform outreach on the submission.

Staff analysis

Summary of staff view

16. Assessing whether an entity of the type described in the submission—a parent preparing separate financial statements—has a main business activity of investing in unconsolidated subsidiaries requires judgement and depends on the entity’s facts and circumstances.
17. Based on our analysis set out in paragraphs 18–37 of this paper, we think that in the fact pattern described in the submission the parent:
- (a) has a main business activity of investing in unconsolidated subsidiaries; and
 - (b) therefore, is required to classify income and expenses from investments in unconsolidated subsidiaries in the operating category in its statement of profit or loss.

Applicable requirements in IFRS 18

18. Paragraph 47 of IFRS 18 requires an entity to classify income and expenses included in its statement of profit or loss in one of five categories: operating, investing, financing, income taxes and discontinued operations. Paragraphs 52–68 and paragraphs B29–B76 of IFRS 18 set out requirements for classifying income and expenses in the five categories.

The operating category

19. Paragraph 52 of IFRS 18 requires an entity to classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in any of the other four categories.
20. Paragraph B42 of IFRS 18 explains that the requirements in the Standard result in an entity classifying income and expenses from its main business activities in the operating category (except for income and expenses from investments accounted for using the equity method).³ Paragraph B30 of IFRS 18 explains that an entity may have more than one main business activity.
21. Paragraph BC89 of the Basis for Conclusions on IFRS 18, which sets out the IASB's rationale in developing the related requirements, explains that the operating category is the 'default' category in the statement of profit or loss. That approach reflects the IASB's view that all income and expenses included in profit or loss—other than those related to investing, financing, income taxes and discontinued operations—arise from an entity's operations. An entity's operations include, but are not limited to, an entity's main business activities.

Entities with specified main business activities

22. To classify income and expenses in the operating, investing and financing categories, an entity assesses, as required by paragraph 49 of IFRS 18, whether it has a specified main business activity. One specified main business activity, as stated in paragraph 49(a), is investing in particular types of assets.

³ Paragraph B42 of IFRS 18 also explains that the operating category is not limited to income and expenses from an entity's main business activities and includes all income and expenses that are not classified by an entity in the other categories.

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23. Paragraph 53(a) of IFRS 18 requires an entity to classify income and expenses from investments in unconsolidated subsidiaries in the investing category unless the entity invests in that type of asset as a specified main business activity.
24. If an entity invests in unconsolidated subsidiaries as a specified main business activity, paragraph 55 of IFRS 18 requires the entity to classify income and expenses from those subsidiaries in the operating category (unless those investments are accounted for applying the equity method).
25. Paragraphs B30–B41 of IFRS 18 include application guidance an entity applies when determining whether it has a specified main business activity. In particular:
- (a) paragraph B31 of IFRS 18 provides examples of entities that might invest in assets as a main business activity. Examples comprise investment entities as defined by IFRS 10, investment property companies and insurers.
 - (b) paragraph B33 of IFRS 18 states that whether investing in assets is a main business activity of the entity is a matter of fact and not merely an assertion. It requires an entity to use its judgement to assess whether investing in assets is a main business activity and to base that assessment on evidence.
 - (c) paragraphs B34–B36 of IFRS 18 discuss factors that may provide evidence of an entity's main business activity. Factors might include, for example:
 - (i) the entity uses a particular subtotal as an important indicator of operating performance—for example, to explain operating performance externally or to assess or monitor operating performance internally;⁴ and

⁴ The particular subtotal is similar to gross profit and includes income and expenses that would be classified in the investing category if investing in assets was not a main business activity. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include net interest income, net fee and commission income, insurance service result, net financial result (investment income minus insurance finance income and expenses) and net rental income (paragraph B123 of IFRS 18).

- (ii) applying IFRS 8 *Operating Segments*, the entity has a reportable segment that comprises a single business activity or an entity has an operating segment that comprises a single business activity and the performance of that operating segment is an important indicator of the entity's operating performance.

Reporting entity

26. Paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets is a main business activity for the reporting entity as a whole. Accordingly, it explains that the assessment of whether investing in assets is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes.
27. Paragraphs BC98–BC99 of the Basis for Conclusions on IFRS 18 which set out the IASB's rationale in developing the related requirements explain that:
- (a) a consolidated group's assessment and a subsidiary within that group's assessment could result in different conclusions. For example, a subsidiary might invest in assets as a main business activity even though the group does not. As a result, the subsidiary's classification of income and expenses in its statement of profit or loss could differ from that of the group. The IASB decided that classification differences between the group and its subsidiary (when they occur) appropriately reflect the differences between their main business activities.
 - (b) similar considerations apply if a parent entity⁵ prepares separate financial statements and consolidated financial statements. For example, a consolidated group and a subsidiary might each conclude that the reporting entity provides financing to customers as a main business activity. However, the parent entity

⁵ We refer to 'parent entity' rather than 'parent' in this paragraph for consistency with paragraph BC99 of the Basis for Conclusions on IFRS 18.

might reach a different conclusion for the purposes of its separate financial statements. For example, the parent entity could be a holding company, with only the subsidiary providing financing to customers.

How the applicable requirements in IFRS 18 apply to the fact pattern

28. Assessing whether a parent has a main business activity of investing in unconsolidated subsidiaries for the purposes of its separate financial statements requires judgement and depends on its specific facts and circumstances. For example, if a parent holds and manages investments in group undertakings and directly engages in other business activities, it might determine—depending on its specific facts and circumstances—that:
- (a) it has a main business activity of investing in assets alongside another main business activity; or
 - (b) it does not have a main business activity of investing in assets.
29. In the fact pattern described in the submission, the parent has no substantive business activity apart from holding and managing investments in subsidiaries and distributing returns from those investments. In those circumstances, concluding that investing in unconsolidated subsidiaries is not a main business activity for the parent would result in the parent not having any main business activity.
30. IFRS 18 does not discuss a situation in which an entity has no main business activity. Based on the relevant requirements and the IASB's rationale in developing those requirements, we think an outcome in which an entity has no main business activity would be inconsistent with the requirements and the IASB's rationale underlying the requirements of the Standard. In particular:
- (a) all income and expenses included in profit or loss—other than those related to investing, financing, income taxes and discontinued operations—arise from an entity's operations; and

- (b) an entity's operations include—but are not limited to—one or more main business activities, including income and expenses from investing in assets if that activity is a main business activity of the entity.
31. We also think that in the case of a parent that has only one substantive business activity, the absence of subtotals as important indicators of operating performance for external or internal use and the absence of reportable or operating segments do not indicate that the parent's only substantive business activity is not its main business activity. Rather, these factors (discussed in paragraphs B34–B36 of IFRS 18—see paragraph 25(c) of this paper) are examples of the types of evidence for an entity to consider which do not apply in the fact pattern described in the submission.
32. Consequently, we think that for the parent described in the submission, the absence of any other substantive activity is in itself sufficient evidence to conclude that investing in unconsolidated subsidiaries is a main—indeed, the only—business activity for the purposes of the parent's separate financial statements. Therefore, the parent is required to classify income and expenses from investments in unconsolidated subsidiaries in the operating category in its statement of profit or loss. This view corresponds to View 1 in the submission (set out in paragraph 10(a) of this paper).
33. We also note that IFRS 18 specifically highlights that the assessment of a main business activity is made for the reporting entity as a whole and, therefore, the outcome of that assessment for the purposes of the separate financial statements of a parent can differ from the outcome of the assessment for the purposes of the consolidated financial statements of the parent and its subsidiaries as a single economic entity.

Why we disagree with View 2 and View 3

34. Paragraphs 28–33 of this paper explain our view—which corresponds to View 1 in the submission (set out in paragraph 10(a) of this paper). For those same reasons, we disagree with View 2 in the submission (set out in paragraph 10(b) of this paper).
35. With respect to the arguments presented for View 2 in the submission:
- (a) as noted in paragraphs 31–32 of this paper, the factors described in paragraphs B34–B36 of IFRS 18 are examples of evidence of a main business activity that are irrelevant in the fact pattern. The absence of these factors is not determinative; the parent, for the purposes of its separate financial statements, can have a main business activity of investing in unconsolidated subsidiaries irrespective of whether factors described in paragraphs B34–B36 are present.
 - (b) the absence of a parent from examples in paragraph B31 of IFRS 18 is not determinative; those examples are not intended to be an exhaustive list.
 - (c) we agree that the business model of entities listed in the examples in paragraph B31 of IFRS 18 might be different from the business model of a parent whose shareholders are primarily focussed on operating results for the group as a whole. However, in our view, the difference in the business models does not suggest that investing in unconsolidated subsidiaries cannot be a main business activity of a parent for the purposes of its separate financial statements.
36. Because we disagree with View 2 in the submission, we also disagree with View 3 (set out in paragraph 10(c) of this paper) which states that the parent has an accounting policy choice for the presentation of income and expenses from its unconsolidated subsidiaries in its separate financial statements.

Staff view

37. We summarise our conclusion in paragraphs 16–17 of this paper.

Question 1 for the Committee

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 included in paragraphs 16–37 of this paper?

Whether to add a standard-setting project to the work plan

38. Paragraph 5.16 of the IFRS Foundation *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan only if all of the following criteria are met:
- (a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;
 - (b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;
 - (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework*; and
 - (d) the matter is sufficiently narrow in scope that the IASB or the Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the IASB or the Committee and stakeholders to undertake the due process required to change a Standard.
39. In our view, as set out in paragraph 15 of this paper (considering the evidence summarised in paragraph 14 of this paper), the criterion set out in paragraph 5.16(a) of the *Due Process Handbook* is met for this matter.

40. Based on our analysis set out in paragraphs 16–37 of this paper, we think that the principles and requirements in IFRS 18 provide an adequate basis for the parent described in the submission to assess, for the purposes of its separate financial statements, whether it has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. Accordingly, we conclude that the criterion in paragraph 5.16(b) of the *Due Process Handbook* is not satisfied.

Staff recommendation

41. For the reasons described in paragraphs 38–40, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that explains how the parent described in the submission applies the requirements in IFRS 18.
42. Appendix A to this paper sets out the suggested wording of the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.⁶

Questions for the Committee

Questions 2 and 3 for the Committee

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| <p>2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?</p> <p>3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?</p> |
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⁶ Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—Suggested wording of the tentative agenda decision

Assessment of a Specified Main Business Activity for the purposes of the Separate Financial Statements of a Parent (IFRS 18 *Presentation and Disclosure in Financial Statements*)

The Committee received a request about how a parent applying IFRS 18 *Presentation and Disclosure in Financial Statements* assesses, for the purpose of its separate financial statements, whether it has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries.

Fact pattern

In the fact pattern described in the request, the reporting entity is an ultimate parent of a large group of entities. Its activities are limited to holding investments in subsidiaries, making decisions on the management, acquisition and disposal of those subsidiaries and distributing returns on those investments to shareholders. The parent determines that it is not an investment entity as defined in IFRS 10 *Consolidated Financial Statements*.

In its separate financial statements, the parent accounts for its investments in subsidiaries—hereafter referred to as investments in unconsolidated subsidiaries—at cost applying paragraph 10(a) of IAS 27 *Separate Financial Statements*. It does not provide to its shareholders any segmental analysis or use any subtotals to explain its operating performance related to its separate financial statements. The parent also does not use such metrics for internal monitoring purposes. Shareholders are provided segmental analysis and subtotals as indicators of the consolidated group's operating performance. For the purposes of the group's consolidated financial statements, no specified main business activity is identified.

The request asks whether the parent, for the purposes of its separate financial statements, has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. The request explained that, in accordance with IFRS 18, the

parent classifies income and expenses from those subsidiaries in its statement of profit or loss:

- (a) in the operating category if it concludes that it has a main business activity of investing in unconsolidated subsidiaries; and
- (b) in the investing category if it concludes that it does not have a main business activity of investing in unconsolidated subsidiaries.

Applicable Requirements

Paragraph 52 of IFRS 18 requires an entity to classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in any of the other four categories. Paragraph B42 of IFRS 18 explains that the requirements in the Standard result in an entity classifying income and expenses from its main business activities in the operating category (except for income and expenses from investments accounted for using the equity method). Paragraph B30 of IFRS 18 explains that an entity may have more than one main business activity.

To classify income and expenses in the operating, investing and financing categories, an entity assesses, as required by paragraph 49 of IFRS 18, whether it has a specified main business activity. In accordance with paragraphs 49(a) and 53(a) of IFRS 18, one specified main business activity is investing in particular types of assets including investments in unconsolidated subsidiaries. As paragraph B44(c) of IFRS 18 notes, investments in unconsolidated subsidiaries include investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of IAS 27.

Paragraph 53(a) of IFRS 18 requires an entity to classify income and expenses from investments in unconsolidated subsidiaries in the investing category unless the entity invests in that type of asset as a specified main business activity. If an entity invests in unconsolidated subsidiaries as a specified main business activity, paragraph 55 of IFRS 18

requires the entity to classify income and expenses from those subsidiaries in the operating category (unless those investments are accounted for applying the equity method).

Paragraphs B30–B41 of IFRS 18 include application guidance an entity applies when determining whether it has a specified main business activity. In particular:

- (a) paragraph B33 of IFRS 18 states that whether investing in assets is a main business activity of the entity is a matter of fact and not merely an assertion. It requires an entity to use its judgement to assess whether investing in assets is a main business activity and to base that assessment on evidence.
- (b) paragraphs B34–B36 of IFRS 18 discuss factors that may provide evidence of an entity's main business activity. These factors include, for example, whether the entity uses a particular subtotal as an important indicator of operating performance or, applying IFRS 8 *Operating Segments*, has a reportable segment that comprises a single business activity.

Paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes. Paragraph BC99 of the Basis for Conclusions explains the IASB's rationale for the related requirements and notes that a parent entity's conclusion as to whether an activity is a main business activity for the purposes of its separate financial statements might differ from its conclusion for the purposes of the group's consolidated financial statements.

Applying the requirements in IFRS 18 to the fact pattern

The Committee observed that assessing whether a parent has a main business activity of investing in unconsolidated subsidiaries for the purposes of its separate financial statements requires judgement and depends on its specific facts and circumstances.

In the fact pattern described in the request, the parent has no substantive business activity apart from holding and managing investments in subsidiaries and distributing returns from those investments. In those circumstances, concluding that investing in unconsolidated subsidiaries is not a main business activity for the parent would result in the parent not having any main business activity. The Committee observed that an outcome in which an entity has no main business activity would be inconsistent with the requirements and the IASB's rationale underlying the requirements of the Standard. In particular:

- (a) all income and expenses included in profit or loss—other than those related to investing, financing, income taxes and discontinued operations—arise from an entity's operations; and
- (b) an entity's operations include—but are not limited to—one or more main business activities, including income and expenses from investing in assets if that activity is a main business activity of the entity.

The Committee observed that, for the parent described in the request, the absence of any other substantive activity is sufficient evidence to conclude that investing in unconsolidated subsidiaries is a main business activity for the purposes of the parent's separate financial statements.

The Committee also observed that:

- (a) the parent described in the request does not provide to its shareholders any segmental analysis or use any subtotals to explain its operating performance related to its separate financial statements; therefore, the examples provided in paragraphs B34–B36 of IFRS 18 of the types of factors an entity considers in assessing whether it has a specified main business activity do not apply in the fact pattern described in the request. The absence of those factors is not determinative and does not indicate that the parent's only substantive business activity is not its main business activity.

- (b) the absence of a parent from the examples provided in paragraph B31 of IFRS 18 is not determinative; those examples are not intended to be an exhaustive list.
- (c) consistent with the IASB's rationale in developing the requirements (as set out in paragraphs BC98–99 of the Basis for Conclusions on IFRS 18), the assessment of a main business activity is made for the reporting entity as a whole and, therefore, the outcome of that assessment for the purposes of the separate financial statements of a parent can differ from the outcome of the assessment for the purposes of the consolidated financial statements of the parent and its subsidiaries as a single economic entity.

Therefore, the Committee concluded that the parent, for the purposes of its separate financial statements, has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. Consequently, the parent is required to classify the income and expenses from its investments in unconsolidated subsidiaries in the operating category in its statement of profit or loss.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for the parent described in the request to assess, for the purposes of its separate financial statements, whether it has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—Submission

Suggested agenda item – Assessment of ‘specified main business activity’ in separate financial statements of a parent entity (IFRS 18 Presentation and Disclosure in Financial Statements)

It has come to our attention that there are diverse views on how the concept of a ‘specified main business activity’ in IFRS 18 should be applied in the context of the separate financial statements of a parent entity (either the ultimate holding entity in a group or an intermediate holding company within a larger group structure) that has no substantive activities beyond holding investments in group undertakings. We are seeking clarification by the IFRS Interpretations Committee (‘the Committee’) of the issue detailed below.

Facts

Entity A is the ultimate parent of a large group of entities. Its activities are limited to holding (either directly or via intermediate holding entities) investments in group undertakings, making decisions on the management, acquisition and disposal of investments and distributing returns on those investments to its shareholders.

Entity A has, applying the guidance in IFRS 10 *Consolidated Financial Statements*, determined that it is not an investment entity and prepares separate financial statements, measuring its investments in subsidiaries at cost under IAS 27 *Separate Financial Statements*.

Entity A does not, in respect of its separate financial statements, provide any segmental analysis or communicate any subtotals as indicators of operating performance (both being provided to its shareholders only in respect of the group’s consolidated financial statements, for which no specified main business activity has been identified, and focused on the group’s operational performance)⁷. Similarly, no such metrics are used for internal monitoring purposes.

⁷ In a common variant to this fact pattern, an intermediate holding entity might also not provide this information because there is no demand for further information from its investors.

Question

Does Entity A have a specified main business activity of investing in assets?

View 1 - Yes (resulting in the presentation of income and expenses specified by IFRS 18:54 in the operating category)

Proponents of this view look to the statements in paragraph B33 of IFRS 18 that “whether investing in assets...is a main business activity of the entity is a matter of fact and not merely an assertion” and the assessment of this “shall be based on evidence” (not limiting this to the indicators listed in paragraphs B34 to B36) and conclude that in the case of a ‘pure’ holding company the absence of any other substantive activity is in itself sufficient evidence to conclude that the holding of investments is a main (indeed, the only) business activity.

Under this view, the indicators described in paragraphs B34 to B36 of IFRS 18 are simply irrelevant to the circumstances of Entity A and, as such, their absence is not an indicator that a main business activity of investing in assets does not exist. In addition, proponents of this view would draw a parallel with the circumstance described in paragraph B37 of IFRS 18 (that the main business activity assessment for a consolidated group can differ from that of one of its subsidiaries) in justifying the possibility of a different conclusion in respect of Entity A’s consolidated and separate financial statements.

View 2 - No (resulting in the presentation of income and expenses specified by IFRS 18:54 in the investing category)

Proponents of this view focus on the indicators of investing as a specified main business activity specified in paragraphs B34 to B36 of IFRS 18 (use of a subtotal in reporting operating performance and segment information) and note that they do not apply to Entity A.

In addition, they would look to the examples of entities with such an activity in paragraph B31 of IFRS 18 and note the absence of holding companies (which are more numerous in practice than any of the entity types there listed) as evidence that they were not intended to be captured by this concept and also note that the business model of the entities listed (entities investing in assets on behalf of external customers primarily interested in their value) might be seen as distinct from

that of a holding company of a group whose external investors are (as evidenced by the reporting on the consolidated financial statements) primarily focused on operational results.

View 3 - Accounting Policy Choice

Under this view, neither the arguments for View 1 nor those for View 2 can be dismissed. As a result, either presentation can be supported.

Reasons for the Committee to address this issue

Divergent views on this matter exist and we believe these issues should be addressed in a timely manner ahead of the effective date of IFRS 18 because they are widespread due to most groups including holding companies and reporting at an individual entity level alongside consolidated accounts being required in many jurisdictions.