
IFRS[®] Interpretations Committee meeting

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Project	Entities with specified main business activities
Topic	Cover paper
Contacts	Karen Robson (karen.robson@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity applies the requirements in paragraphs 56–57 and 65–66 of IFRS 18 *Presentation and Disclosure in Financial Statements* in particular situations.
2. Paragraphs 56–57 of IFRS 18 specify the classification of income and expenses from cash and cash equivalents (including for entities with specified main business activities) and paragraphs 65–66 of IFRS 18 specify the classification requirements for income and expenses from particular liabilities for entities that provide financing to customers as a main business activity.¹

Structure of this paper

3. This paper includes:
 - (a) [overview of submission](#) (paragraphs 4–6);
 - (b) [structure of papers](#) (paragraphs 7–8);

¹ Appendix A to this paper reproduces paragraphs 56–57 and paragraphs 65–66 of IFRS 18.

- (c) [staff analysis](#) (paragraphs 9–13);
- (d) [Appendix A](#), which reproduces relevant excerpts from IFRS 18; and
- (e) [Appendix B](#), which reproduces the submission.

Overview of submission

4. The submission—reproduced in [Appendix B](#) to this paper—discusses a number of different situations and asks how an entity applies the requirements in paragraphs 56–57 and paragraphs 65–66 of IFRS 18 in those situations. The submission asks four questions—which it labels as Question A—Question D.
5. Question A and Example 2 of Question D in the submission ask about the application of paragraph 56(a) of IFRS 18. In particular, the submission asks whether the requirement in paragraph 56(a) of IFRS 18 applies to all cash and cash equivalents if an entity concludes it invests in financial assets within the scope of paragraph 53(c) of IFRS 18 as a main business activity, even if some of the cash and cash equivalents relate to another business activity.
6. Questions B and C and Example 1 of Question D ask about the application of, and interaction between, paragraphs 56(b)–57 and 65–66 of IFRS 18. In particular, the submission asks:
 - (a) whether, in preparing the consolidated financial statements, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 applies to the reporting entity as a whole or only to subsidiaries within the entity’s group that have a main business activity of providing financing to customers;
 - (b) whether the requirement in paragraph 66 of IFRS 18 applies to income and expenses from *all* liabilities that arise from transactions that involve only the raising of finance even if the entity can distinguish between some, but not all, liabilities that relate to providing finance to customers and those liabilities that do not; and

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- (c) if, applying paragraph 57 of IFRS 18, an entity classifies income and expenses from cash and cash equivalents in the operating category because it cannot distinguish between cash and cash equivalents that relate to providing financing to customers and cash and cash equivalents that do not, whether the entity is required to apply the same classification to income and expenses from liabilities that arise from transactions involving only the raising of finance even if it can distinguish between those that relate to providing financing to customers and those that do not relate to providing financing to customers.

Structure of papers

7. We have organised the papers related to this submission as follows:
- (a) this paper provides a high-level overview of the submission. It also presents our analysis of whether the matters included in the submission have ‘widespread effect’ as set out in paragraph 5.19(a) of the IFRS Foundation’s *Due Process Handbook* (*Handbook*). This paper includes no questions.
 - (b) Agenda Paper 4A—summarises and analyses the question in the submission related to the application of paragraph 56(a) of IFRS 18 (see paragraph 5)
 - (c) Agenda Paper 4B—summarises and analyses the questions in the submission related to the application of paragraphs 56(b)–57 and 65–66 of IFRS 18 (see paragraph 6).
8. Agenda Papers 4A and 4B present our analysis of whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting (paragraph 5.19(b) of the *Handbook*). Those papers also ask whether the Committee agrees with our conclusion that a standard-setting project is not needed to address the questions and our recommendation to publish two tentative agenda decisions. Each paper includes a draft tentative agenda decision.

Staff analysis

9. Paragraph 5.19 of the *Handbook* states that the Committee assesses the need for a standard-setting project based on whether:
- (a) the matter has widespread effect—that is:
 - (i) the circumstance or transaction is prevalent, or is expected to be prevalent; and
 - (ii) there is diversity, or expected diversity, in the application of IFRS Accounting Standards that 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 existing IFRS Accounting Standards and the *Conceptual Framework for Financial Reporting (Conceptual Framework)*; and
 - (d) the matter is sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee can address it efficiently, 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 amend an IFRS Accounting Standard.

Assessment of paragraph 5.19(a)

10. The purpose of any information requests we send to stakeholders is to understand whether a submission meets the criteria in paragraph 5.19(a) of the *Handbook*—that is, whether the matter set out in the submission has widespread effect. We consider:
- (a) the prevalence, or expected prevalence, of the transaction or fact pattern submitted; and

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- (b) whether there is diversity or expected diversity, in the application of IFRS Accounting Standards to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.
11. We did not send an information request related to the submission 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) for many consolidated groups or large entities, it is common to have subsidiaries or portions of the entity engaging in different business activities including manufacturing or specified main business activities such as investing in assets or providing financing to customers.
- (ii) many entities in their jurisdiction have different views of how to apply the relevant requirements as those entities work through their IFRS 18 implementation projects; and
- (iii) potential diversity in practice in this regard could have a material effect on the financial statements of affected entities.
- (c) we have had informal conversations with some stakeholders that have confirmed the points in paragraph (b). Those stakeholders informed us of discussions they have had on similar questions as those raised by the submitter, and these conversations confirmed that stakeholders understand the applicable requirements differently.
12. In our view, the evidence gathered indicates the matter could have widespread effect because:
- (a) the matter could affect all entities that have more than one business activity, including specified main business activities such as investing in assets or providing financing to customers.

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- (b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective and this diversity could have a material effect on those affected.
13. In our view, the criterion set out in paragraph 5.19(a) of the *Handbook* is met for this matter. Therefore, we have proceeded to analyse the questions submitted (see Agenda Papers 4A and 4B for this meeting).

Appendix A—Excerpts from IFRS 18

A1. This appendix reproduces relevant excerpts from IFRS 18.

A2. Paragraphs 56–57 of IFRS 18 state:

56. For the assets specified in paragraph 53(b) (that is, cash and cash equivalents), an entity shall classify the income and expenses specified in paragraph 54 in the investing category unless:

(a) it invests as a main business activity in financial assets within the scope of paragraph 53(c)—in which case it shall classify the income and expenses in the operating category.

(b) it does not meet the requirements in (a) but provides financing to customers as a main business activity—in which case it shall classify:

(i) the income and expenses from cash and cash equivalents that relate to providing financing to customers, for example cash and cash equivalents held for related regulatory requirements—in the operating category.

(ii) the income and expenses from cash and cash equivalents that do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 54 in the operating category or the investing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from liabilities in paragraph 65(a)(ii).

57. If an entity applying paragraph 56(b) cannot distinguish between the cash and cash equivalents described in paragraphs 56(b)(i) and 56(b)(ii), it shall apply the accounting policy choice in

paragraph 56(b)(ii) to classify income and expenses from all cash and cash equivalents in the operating category.

A3. Paragraphs 65–66 of IFRS 18 state:

65. If an entity provides financing to customers as a main business activity, it shall classify income and expenses (see paragraph B59):

(a) from the liabilities specified in paragraph 59(a) (that is, liabilities that arise from transactions that involve only the raising of finance):

(i) if the liabilities relate to providing financing to customers—in the operating category.

(ii) if the liabilities do not relate to providing financing to customers—by applying an accounting policy choice to classify the income and expenses specified in paragraph 60 in the operating category or the financing category. The choice of accounting policy shall be consistent with that made by the entity for the purpose of the related accounting policy for income and expenses from cash and cash equivalents in paragraph 56(b)(ii).

(b) from the liabilities specified in paragraph 59(b) (that is, liabilities that arise from transactions that do not involve only the raising of finance):

(i) if the income and expenses are specified in paragraph 61—in the financing category; or

(ii) if the income and expenses are not specified in paragraph 61—in the operating category.

66. If an entity applying paragraph 65(a) cannot distinguish between the liabilities described in paragraphs 65(a)(i) and 65(a)(ii), it shall apply the accounting policy choice in

paragraph 65(a)(ii) to classify income and expenses from all such liabilities in the operating category.

Appendix B—Submission

Question A - Paragraph 56(a) of IFRS 18

Background:

It has come to our attention that there are diverse views on how to classify income and expenses from cash and cash equivalents held by an entity that invests in financial assets within the scope of paragraph 53(c) as one of its main business activities even if some of the cash and cash equivalents held by the entity do not relate to investing in financial assets, especially when different main business activities are put into different subsidiaries or portions so that the cash and cash equivalents not related to investing in financial assets can be clearly identified. We are seeking clarification by the IFRS Interpretations Committee ('the Committee') of the issue detailed below.

Requirements in IFRS 18:

Paragraph 56(a) of IFRS 18 requires an entity to classify income and expenses from cash and cash equivalents in the operating category if the entity invests in financial assets within the scope of paragraph 53(c) of IFRS 18 as a main business activity.

Fact Pattern and Question:

The issue can be illustrated by means of two simple examples:

Example 1: Group A has two subsidiaries S1 and S2. Subsidiary S1's main business activity is investing in financial assets within the scope of paragraph 53(c), while Subsidiary S2's main business activity is manufacturing products. At the consolidated level of Group A, both investing in financial assets and manufacturing products are identified as main business activities. The income and expenses arising from cash and cash equivalents held by S2 are clearly not related to investing in financial assets and account for 80% of the total in the consolidated financial statements. The income and expenses arising from cash and cash equivalents held by S1 account for the remaining 20% of the total in the consolidated financial statements.

Given this, is Group A—in its consolidated financial statements—required to classify the income and expenses (typically representing income) from all cash and cash equivalents—including the income and expenses from cash and cash equivalents from Subsidiary S2—in the consolidated financial statement in the operating category in accordance with paragraph 56(a)?

Example 2: Group B has two subsidiaries S3 and S4. Subsidiary S3's main business activity is investing in financial assets within the scope of paragraph 53(c), while Subsidiary S4's main business activity is providing financing to customers. At the consolidated level of Group B, both investing in financial assets and providing financing to customers are identified as main business activities. The income and expenses arising from cash and cash equivalents held by S4 can be distinguished whether or not relate to providing financing to customers (50% of them relate to providing financing to customers and the other 50% do not) and account for 80% of the total in the consolidated financial statements. The income and expenses arising from cash and cash equivalents held by S3 account for the remaining 20% of the total in the consolidated financial statements.

Given this, is Group B—when preparing consolidated financial statements—required to classify the income and expenses generated from cash and cash equivalents held by subsidiary S4 in the operating category in accordance with paragraph 56(a)?

Differing views:

View A – Applying paragraph 56(a), all income and expenses arising from cash and cash equivalents should be classified in the operating category.

Proponents of this view focus on the concept of reporting entity. When preparing consolidated financial statements, the consolidated group is the reporting entity. If the reporting entity invests in financial assets as a main business activity, all income and expenses arising from cash and cash equivalents should be classified in the operating category applying paragraph 56(a).

View B - Only the income and expenses arising from cash and cash equivalents related to investing in financial assets in the scope of paragraph 53(c) should be classified in the operating category.

Proponents of this view focus on the purpose of specified main business activity. The purpose of specified main business activity is to allow entities to present their key measures of operating performance in the operating category, and the special classification requirements are created for income and expenses related to specified main business activities (see BC90). For income and expenses clearly not related to specified main business activity, classifying them to operating category will be a departure from IFRS 18's original purpose of creating the concept of specified main business activity.

In addition, proponents of this view regard this issue as a similar scenario in BC146 when investing in assets is a specified main business activity and the requirements to classify

income and expenses in the operating category applies only to income and expenses from assets in which the entity invests as a main business activity. As paragraph B40 clarifies, the determination of whether an investment constitutes a specified main business activity should be made at the level of individual assets (or groups of assets with the same characteristics). Given that cash and cash equivalents are highly inter-related to the investing activities and readily convertible into financial assets, an entity shall apply the same principle in B40 to assess cash and cash equivalents at the level of their related individual assets. Therefore, if the income and expenses arising from cash and cash equivalents are clearly separated and can be distinguished whether generated from the main business activity of investing in financial assets or not, the portion of income and expenses arising from cash and cash equivalents that are clearly not generated from the main business activity of investing in financial assets should not apply paragraph 56(a), otherwise it will lead to an incomprehensible result from the users' perspective, and the result does not faithfully depict the reasonable classification of the income statement when the entity has different main business activities.

Reasons for Committee to address the issue:

This issue is highly prevalent and materially significant. Divergent views on this matter exist and we believe these issues should be addressed in a timely manner prior to the effective date of IFRS 18. In a large group (or entity), it is common to have subsidiaries or portions engaging in different main business activities including investing in financial assets as well as manufacturing or providing financing to customers. This issue will have significant and widespread implications on the financial statements for these entities.

Question B - Paragraph 65(a)(ii) of IFRS 18

Background:

It has come to our attention that there are diverse views on whether the accounting policy choice in IFRS 18 paragraph 65(a)(ii) applies to income and expenses from liabilities that involve only the raising of finance but do not relate to providing financing to customers even if those liabilities arise from, for example, a subsidiary or a portion within an entity not involved in providing financing to customers. If yes, a question arises as to whether that accounting policy choice needs to be consistent across the different subsidiaries or portions within the group. We are seeking clarification by the IFRS Interpretations Committee ('the Committee') of the issue detailed below.

Requirements in IFRS 18:

Paragraph 65(a)(ii) requires an entity that provides financing to customers as a main business activity to apply an accounting policy choice when classifying income and expenses from liabilities that arise from transactions that involve only the raising of finance but do not relate to providing financing to customers.

Fact Pattern and Question:

The issue can be illustrated by means of a simple example:

Group A has two subsidiaries S1 and S2. S1's main business activity is manufacturing products, while S2's main business activity is providing financing to customers. At the consolidated level of Group A, manufacturing and providing financing to customers are both main business activities. All liabilities specified in paragraph 59(a) held by subsidiary S1 are not related to providing financing to customers, and the related income and expenses represent 80% of the total in the consolidated financial statements. The income and expenses from the liabilities specified in paragraph 59(a) held by subsidiary S2 represent 20% of the total in the consolidated financial statements.

Given this, is Group A, in preparing its consolidated financial statements, required to apply paragraph 65(a)(ii) when considering the classification of income and expenses from liabilities that involve only the raising of finance but do not relate to providing financing to customers held by S1? If yes, does the accounting policy choice that applies to the liabilities that involve only the raising of finance held by S1 (which does not provide financing to customers) need to be consistent with the accounting policy choice applied

to the liabilities that involve only the raising of finance held by S2 (which provides financing to customers)?

Differing views:

View A – Paragraph 65(a)(ii) applies to all liabilities that involve only the raising of finance but do not relate to providing financing to customers, **and the policy should be applied consistently to all liabilities.**

Proponents of this view focus on the concept of reporting entity. As a reporting entity, the consolidated group should apply the accounting policy choice of paragraph 65(a)(ii) for all liabilities specified in paragraph 59(a) but do not relate to providing financing to customers held by the group, and the accounting policies should be consistently applied in the consolidated level to classify such income and expenses all in the operating category or all in financing category, regardless of whether the liabilities are held by subsidiary S1 or not.

View B - Only the income and expenses arising from liabilities that involve the raising of finance but do not relate to providing financing to customers **from subsidiaries or portions of an entity that provide financing to customers should apply paragraph 65(a)(ii).**

Proponents of this view focus on the purpose of specified main business activity and the accounting policy choice. The purpose of specified main business activity is to allow entities to present their key measures of operating performance in the operating category, and the special classification requirements are created for income and expenses related to specified main business activities (see BC90). For income and expenses clearly not related to specified main business activity, classifying them to operating category will be a departure from IFRS 18's original purpose of creating the concept of specified main business activity.

In addition, the reason why IFRS 18 gives an accounting policy choice in paragraph 65(a)(ii) is to provide an expedient to avoid entities incur undue costs to identify whether the income and expense from such liabilities relate to providing financing to customers (see BC180 and BC181). So, if the income and expenses arising from liabilities that involve the raising of finance are clearly separated and can be distinguished whether generated from the main business activity of providing financing to customers or not, the portion of income and expenses arising from liabilities that are not generated from the main business activity of providing financing to customers should not apply paragraph 65(a)(ii). Otherwise, if Group A applies this accounting policy choice and classify the income and expenses from liabilities that involve only the raising of finance held by S1 in

the operating category, it will lead to an incomprehensible result from the users' perspective, and the result does not faithfully depict the reasonable classification of the income statement when the entity has different main business activities.

Reasons for Committee to address the issue:

This issue is highly prevalent and materially significant. Divergent views on this matter exist and we believe these issues should be addressed in a timely manner prior to the effective date of IFRS 18. In a large group (or entity), it is common to have subsidiaries or portions engaging in different main business activities including providing financing to customers as well as manufacturing or investing in financial assets. This issue will have significant and widespread implications on the financial statements for these entities.

Question C - Interaction between paragraph 65 (a)(ii) and paragraph 66 of IFRS 18

Background:

It has come to our attention that there are diverse views on how the classification requirement of income and expenses from liabilities that involve only the raising of finance for entities providing financing to customers as a main business activity applies when partial of these liabilities can clearly be while the remaining cannot be distinguished whether relate to providing financing to customers or not. We are seeking clarification by the IFRS Interpretations Committee ('the Committee') of the issue detailed below.

Requirements in IFRS 18:

Paragraph 66 requires an entity that provides financing to customers as a main business activity and cannot distinguish whether the liabilities that arise from transactions that involve only the raising of finance relate to providing financing to customers or not to apply the accounting policy choice in paragraph 65(a)(ii) and classify income and expenses from all such liabilities in the operating category.

Fact Pattern and Question:

Entity A provides financing to customers as a main business activity. For Entity A's liabilities that arise from transactions that involve only the raising of finance, portion A of them cannot be distinguished whether relate to providing financing to customers or not, while the remaining portion can be clearly distinguished that portion B relate to providing financing to customers and portion C does not relate to providing financing to customers. For portion A of these liabilities, Entity A applied paragraph 66 and classified the income and expenses from them in the operating category.

A question arises about whether Entity A can still apply the accounting policy choice in paragraph 65(a)(ii) for portion C of liabilities that arise from transactions that involve only the raising of finance and can be clearly identified not relate to providing financing to customers, when Entity A has already applied paragraph 66 to classify the portion A, which cannot be distinguished, in the operating category. In short, should Entity A consistently classify the income and expenses from portion C in the operating category, or Entity A still has a free choice to classify them in operating or financing category in accordance with paragraph 65(a)(ii)?

Differing views:

View A – Entity A is required to classify the income and expenses from portion C in the operating category by applying paragraph 66. As stated in paragraph 66, it shall apply the accounting policy choice in paragraph 65(a)(ii) to classify income and expenses from all such liabilities in the operating category, which means it is the same accounting policy choice with paragraph 65 (a)(ii). Since Entity A has applied this accounting policy choice and classified the income and expenses from portion A in the operating category, the accounting policy for classification of income and expenses from portion C should be consistent with it.

View B – Entity A still has a free accounting policy choice to classify the income and expenses from portion C in operating or financing category. This is because the requirement in paragraph 66 to classify the income and expenses from portion A in operating category leads to a unique result, which means application of paragraph 66 is not an accounting policy choice. Besides, BC184 also states that the accounting policy choice of paragraph 65 (a)(ii) relates only to the classification of those income and expenses from such liabilities that do not relate to providing financing to customers. So, the classification of income and expenses from portion C does not have to be consistent with portion A. In addition, proponents of this view believe the wording ‘all such liabilities’ in paragraph 66 refers to the portion of liabilities that cannot be distinguished whether relate to providing financing to customers or not, so it naturally gives portion C the free choice in paragraph 65 (a)(ii).

Reasons for Committee to address the issue:

This issue is highly prevalent and materially significant. Divergent views on this matter exist and we believe these issues should be addressed in a timely manner prior to the effective date of IFRS 18. When an entity provides financing to customers as a main business activity, it is common that partial of these liabilities can clearly be while the remaining cannot be distinguished whether relate to providing financing to customers or not. This issue will have significant and widespread implications on the financial statements for these entities.

Question D - Interaction between, and need for consistency in applying, paragraphs 56-57 of IFRS 18 and paragraphs 65-66 of IFRS 18

Background:

It has come to our attention that there are diverse views on whether the classification of income and expenses from cash and cash equivalents applying IFRS 18 paragraphs 56-57 must be consistent with the classification of income and expenses from liabilities that arise from transactions that involve only the raising of finance when an entity provides financing to customers as a main business activity. We are seeking clarification by the IFRS Interpretations Committee ('the Committee') of the issue detailed below.

Requirements in IFRS 18:

Paragraphs 56-57 discuss the classification of income and expenses from cash and cash equivalents. Paragraphs 65(a) and 66 discuss the classification of income and expenses from liabilities that arise from transactions that involve only the raising of finance when an entity provides financing to customers as a main business activity.

Paragraph 56(b)(ii) allows an entity to apply an accounting policy choice in a particular situation. Paragraph 65(a)(ii) allows an entity a similar accounting policy choice in a particular situation. Both paragraph 56(b)(ii) and 65(a)(ii) require the choice of accounting policy to be consistent with that made applying the other paragraph (eg the choice made applying 56(b)(ii) should be consistent with the choice made applying paragraph 65(a)(ii) and vice versa).

Question and Views:

The examples below illustrate when the question might arise and the different views in each of these situations:

Example 1:

Entity A is an entity whose main business activity is providing financing to customers. Entity A cannot distinguish whether its cash and cash equivalents are related to providing financing to customers or not. Therefore, applying paragraph 57, it classifies all income and expenses from its cash and cash equivalents in the operating category. However, Entity A can clearly distinguish, as required by paragraph 65(a), whether its liabilities arise from transactions that involve only the raising of finance are related to providing financing to customers or not.

A question arises about how Entity A applies the accounting policy choice in paragraph 65(a)(ii) to classify income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers: is Entity A required to classify those income and expenses in the operating category consistent with the classification of income and expenses from cash and cash equivalents?

View A - Entity A is required to classify those income and expenses in the operating category consistent with the classification of income and expenses from cash and cash equivalents. This is because paragraph 65(a)(ii) requires the classification of income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers to be consistent with the classification of income and expenses from cash and cash equivalents that do not relate to providing financing to customers (applying paragraphs 56(b)(ii) and 57).

View B - Entity A applies paragraph 65(a)(ii) when classifying income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers—and is not required to be consistent with its classification of income and expenses from cash and equivalents in the operating category. This is because the classification of income and expenses from cash and cash equivalents held by Entity A in the operating category is in accordance with paragraph 57, not as a result of an accounting policy choice made in accordance with paragraph 56(b)(ii). Therefore, the requirement of consistency in accounting policy choice between paragraphs 65(a)(ii) and 56(b)(ii) does not apply.

Example 2:

Bank B is a retail bank whose main business activities include investing in financial assets and providing financing to customers. The income and expenses from all its cash and cash equivalents have been classified in the operating category in accordance with paragraph 56(a).

For the income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers, does Bank B apply an accounting policy choice to classify those income and expenses in the operating category or financing category in accordance with paragraph 65(a)(ii), or does Bank B classify them in the operating category consistent with the classification of income and expenses from cash and cash equivalents?

View A – Bank B is required to classify income and expenses from liabilities that involve only the raising of finance and do not relate to providing financing to customers in the operating category. This is because paragraph 65(a)(ii) requires the classification of

income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers to be consistent with the classification of income and expenses from cash and cash equivalents that do not relate to providing financing to customers (applying paragraph 56(b)(ii)).

View B - Bank B applies paragraph 65(a)(ii) when classifying income and expenses from liabilities that involve only the raising of finance that do not relate to providing financing to customers—and is not required to be consistent with its classification of income and expenses from cash and equivalents in the operating category. This is because the classification of income and expenses from cash and cash equivalents held by Bank B in the operating category is in accordance with paragraph 56(a), not as a result of an accounting policy choice made in accordance with paragraph 56(b)(ii). Therefore, the requirement of consistency in accounting policy choice between paragraphs 65(a)(ii) and 56(b)(ii) does not apply.

Reasons for Committee to address the issue:

This issue is highly prevalent and materially significant. Divergent views on this matter exists and we believe these issues should be addressed in a timely manner prior to the effective date of IFRS 18. Given that entities whose main business activities include providing financing to customers will widely apply the accounting policy choices provided in IFRS 18, how to understand and apply this accounting policy choice will have significant and widespread implications on the classification of income and expenses in the income statement.