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## IFRS® Interpretations Committee meeting

Date	<b>June 2026</b>
Project	<b>Entities with specified main business activities</b>
Topic	<b>Classification of income and expenses from cash and cash equivalents—Initial consideration</b>
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## Introduction

1. As explained in Agenda Paper 4, this paper presents 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 *Due Process Handbook (Handbook)*) in response to the questions in the submission about the application of paragraph 56(a) of IFRS 18 *Presentation and Disclosure in Financial Statements*.
2. The objective of this paper is:
  - (a) to provide the IFRS Interpretations Committee (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 that a standard-setting project is not needed to address the question and our recommendation to publish a tentative agenda decision.

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## Structure of this paper

3. This paper includes:
  - (a) [summary of the submission](#) (paragraphs 5–13);
  - (b) [staff analysis](#) (paragraphs 14–24); and
  - (c) [staff recommendation](#) (paragraphs 25–26).
4. The [appendix](#) to this paper includes suggested wording for the tentative agenda decision.

## Summary of the submission

5. Appendix B to Agenda Paper 4 reproduces the submission, which provides further details about the fact pattern, the question and the views identified by the submitter. We provide a summary of the submission below.

### *The question*

6. Paragraph 56(a) of IFRS 18—reproduced in Appendix A to Agenda Paper 4—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.<sup>1</sup>
7. 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 (for example, providing financing to customers or manufacturing products).

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<sup>1</sup> Paragraph 53(c) refers to ‘other assets if they generate a return individually and largely independently of the entity’s other resources...’.

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8. The following fact pattern, developed using the examples in the submission, describes the question asked.

*Fact pattern and question*

9. A consolidated group, Group A, consists of subsidiaries that have different business activities:
- (a) Subsidiary A has a specified main business activity—that is a main business activity of investing in financial assets within the scope of paragraph 53(c) of IFRS 18;
  - (b) Subsidiary B is a manufacturing entity that does not have a specified main business activity in accordance with paragraph 49 of IFRS 18; and
  - (c) Subsidiary C has a specified main business activity—that is a main business activity of providing financing to customers in accordance with paragraph 49 of IFRS 18.
10. For the purposes of the consolidated financial statements, Group A determines that, in addition to its manufacturing business activities, it has a specified main business activity—that is a main business activity of:
- (a) investing in financial assets within the scope of paragraph 53(c) of IFRS 18; and
  - (b) providing financing to customers.
11. The submission asks whether Group A, in its consolidated financial statements, is required to—applying paragraph 56(a) of IFRS 18—classify all income and expenses from cash and cash equivalents in the operating category of the statement of profit or loss.

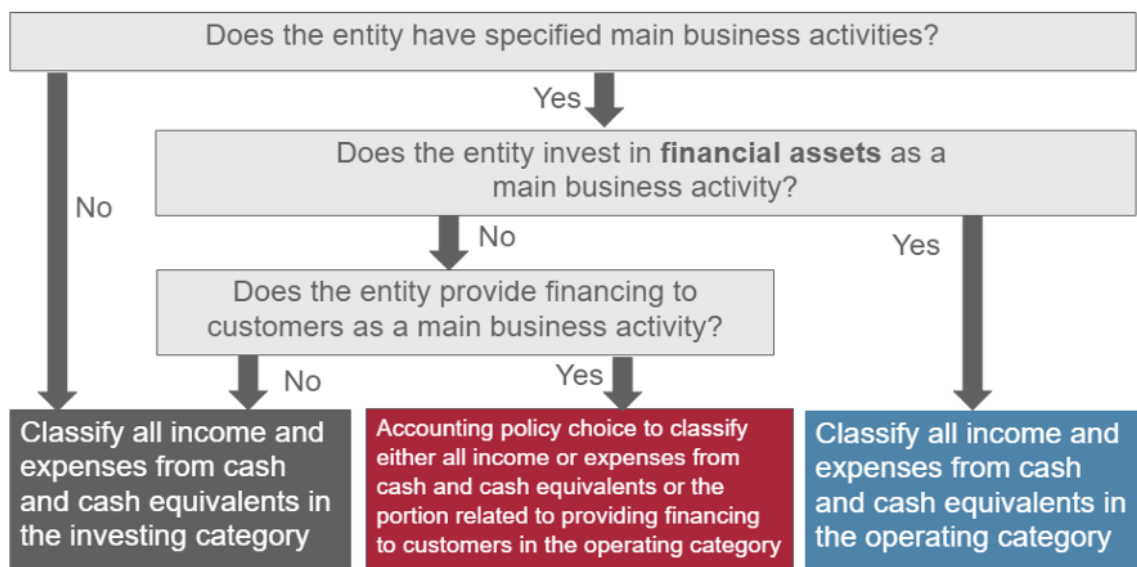
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*Views on the application of the requirements in IFRS 18*

12. For the purposes of applying the requirements in paragraph 56(a) of IFRS 18, the submitter identifies two views:
- (a) **View 1**—Applying paragraph 56(a) of IFRS 18, all income and expenses arising from cash and cash equivalents should be classified in the operating category. The consolidated group—Group A—is the reporting entity and if Group A 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) of IFRS 18.
  - (b) **View 2**—Only the income and expenses arising from cash and cash equivalents related to investing in financial assets within the scope of paragraph 53(c) of IFRS 18 should be classified in the operating category. Paragraph B40 of IFRS 18 specifies that 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). Because cash and cash equivalents are highly interrelated to the investing activities of Group A, the entity applies the requirement in paragraph B40 to assess cash and cash equivalents at the level of their related individual assets. If the income and expenses arising from cash and cash equivalents of Subsidiary B—which is a manufacturing entity—and/or Subsidiary C—which has a main business activity of providing financing to customers—can be distinguished from that of the other subsidiaries, the entity classifies those income and expenses in the investing category or as required by paragraph 56(b).
13. The submission—reproduced in Appendix B to Agenda Paper 4—includes further information about the different views identified by the submitter and the rationale for those views.

## Staff analysis

14. The requirement in paragraph 56(a) of IFRS 18 applies when an entity invests in financial assets within the scope of paragraph 53(c) of IFRS 18 as a main business activity. In this situation, it requires an entity to classify income and expenses from cash and cash equivalents in the operating category.
  
15. We think this applies to income and expenses from *all* cash and cash equivalents, regardless of whether the entity also has another main business activity. The paragraph does not include any exceptions that would allow an entity to classify a portion of income and expenses from cash and cash equivalents in a different category. Our view is further supported by the fact that paragraph 56(b) of IFRS 18 uses the words ‘it does not meet the requirements in (a), but provides financing to customers...’. In other words, paragraph 56(b) of IFRS 18 only applies if an entity does not meet the requirements in 56(a) of IFRS 18.
  
16. The IASB considered this question when redeliberating the proposals that ultimately were included as requirements in IFRS 18. [Agenda Paper 21F](#) for the March 2023 IASB meeting included the below decision tree to illustrate the order in which the requirements, in what is now paragraph 56 of IFRS 18, are applied:



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17. Paragraphs BC135–141 of the Basis for Conclusions on IFRS 18 explain the IASB’s rationale for the requirement in paragraph 56(a) of IFRS 18. In particular:
- (a) paragraph BC136 explains that the IASB considered that in some cases, when an entity invests in financial assets as a main business activity, it holds a large amount of cash and cash equivalents for operational purposes. Feedback from users of financial statements indicated that for such entities, classifying income and expenses from cash and cash equivalents in the operating category (instead of the investing category) provides more useful information.
  - (b) paragraph BC138 notes that many entities—such as banks—that provide financing to customers as a main business activity also invest in financial assets as a main business activity. The requirement described in paragraph 56(a) of IFRS 18...applies to such entities.
18. Paragraphs BC139–BC141 of the Basis for Conclusions on IFRS 18 explain the basis for the IASB’s decisions for providing an accounting policy choice for entities that provide financing to customers but do not have a main business activity of investing in financial assets. It is therefore clear that the accounting policy choice described in paragraph 56(b) of IFRS 18 applies only when an entity provides financing to customers but does not invest in financial assets.
19. We therefore consider that View 1 as described in paragraph 12(a) of this paper is the only appropriate application of the requirements in paragraph 56 of IFRS 18.

### ***Why we disagree with View 2***

20. We disagree with the reasoning provided for View 2 as summarised in paragraph 12(b) of this paper. Paragraphs B40 of IFRS 18 is part of the section of application guidance (paragraphs B30–B41 of IFRS 18) which provides application guidance to assist entities in applying the requirements in paragraph 49 of IFRS 18 when assessing whether an entity invests in assets or provides financing to customers as a main business activity. This application guidance does not relate to the classification of

income or expenses and therefore cannot be applied to override the requirements in paragraph 56 of IFRS 18.

### **Staff view**

21. Based on our analysis, we conclude that, applying paragraph 56(a) of IFRS 18, an entity that invests in financial assets within the scope of paragraph 53(c) of IFRS 18 is required to classify income and expenses from all its cash and cash equivalents in the operating category of the statement of profit or loss.

#### Question 1 for the Committee

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 included in paragraphs 14–21 of this paper?

### **Assessment of paragraph 5.19 of the Handbook**

22. Paragraph 5.19 of the *Handbook* sets out the criteria the Committee assesses in determining the need for a standard-setting project to address the questions submitted. Agenda Paper 4 for this meeting reproduces paragraph 5.19 of the *Handbook* and provides our analysis of whether the matters in the submission meet the criteria in paragraph 5.19(a) of the *Handbook*—that is, whether the matters set out in the submission have widespread effect. We conclude in paragraph 13 of Agenda Paper 4 that the criterion set out in paragraph 5.19(a) of the *Handbook* is met for the matters in the submission.
23. Paragraph 5.19(b) of the *Handbook* requires the Committee to assess whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, whether the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.
24. Based on our analysis set out in paragraphs 14–21 of this paper, in our view, the principles and requirements in IFRS 18 provide an adequate basis for an entity to

determine the classification of income and expenses from cash and cash equivalents applying the requirements in paragraph 56(a) of IFRS 18. Accordingly, we conclude that the criterion in paragraph 5.19(b) of the *Handbook* is not met. Therefore, in accordance with paragraph 5.22 of the *Handbook*, a standard-setting project is not needed to address the question submitted.

## Staff recommendation

25. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (see paragraphs 22–24), we recommend that the Committee publishes a tentative agenda decision, in accordance with paragraph 8.2 of the *Handbook*, that explains why a standard-setting project is not needed to address the question submitted.
26. The [appendix](#) to this paper suggests wording for 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.<sup>2</sup>

### Questions 2 and 3 for the Committee

2. Does the Committee agree with our conclusion that the criterion in paragraph 5.19(b) of the *Handbook* is not met and, consequently, there is no need for a standard-setting project?
3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in the appendix to this paper?

<sup>2</sup> 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.'

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**Appendix—suggested wording of the tentative agenda decision****Classification of Income and Expenses from Cash and Cash equivalents  
(IFRS 18 *Presentation and Disclosure in Financial Statements*)**

The Committee received a request about how an entity that has a main business activity of investing in financial assets within the scope of paragraph 53(c) of IFRS 18 in addition to other business activities classifies income and expenses from cash and cash equivalents in its statement of profit or loss.

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

The request asked if the requirement in paragraph 56(a) applies to income and expenses from all cash and cash equivalents if an entity invests in financial assets within the scope of paragraph 53(c) of IFRS 18 as a main business activity, even if some of the income and expenses from cash and cash equivalents relate to another business activity such as providing financing to customers or manufacturing products.

**Applying the requirements**

The requirement in paragraph 56(a) of IFRS 18 applies to income and expenses from all cash and cash equivalents, regardless of whether the entity also has another specified main business activity. Paragraph 56(a) of IFRS 18 does not include any exceptions that would allow an entity to classify a portion of income and expenses from cash and cash equivalents in a different category.

**Conclusion**

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity that has a main business activity of investing in financial assets

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within the scope of paragraph 53(c) of IFRS 18 in addition to other business activities to determine the classification of income and expenses from cash and cash equivalents in its statement of profit or loss. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.