
IFRS® Interpretations Committee meeting

Date	June 2026
Project	Entities with specified main business activities
Topic	Classifying income and expenses applying paragraph 65(a)(ii) of IFRS 18
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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 65(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.

Structure of this paper

3. This paper includes:
 - (a) [summary of the submission](#) (paragraphs 5–16);
 - (b) [staff analysis](#) (paragraphs 17–29); and
 - (c) [staff recommendation](#) (paragraphs 30–31).
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 questions and the views identified by the submitter. We provide a summary of the submission below.

The question

6. For an entity that provides financing to customers as a main business activity, paragraph 65(a)(ii) of IFRS 18—reproduced in Appendix A to Agenda Paper 4—provides an accounting policy choice to classify 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, in either the operating or financing category. The choice of accounting policy is applied consistently 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) of IFRS 18.¹

¹ For an entity that provides financing to customers as a main business activity but that does not invest in financial assets within the scope of paragraph 53(c) of IFRS 18 as a main business activity, paragraph 56(b)(ii) permits the entity an accounting policy choice to classify the income and expenses from cash and cash equivalents that do not relate to providing financing to customers, in either the operating or investing category.

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7. Paragraph 66 of IFRS 18 requires an entity that cannot distinguish between the liabilities that relate to providing financing to customers and those that do not, to apply the accounting policy choice to classify income and expenses from all such liabilities in the operating category. Similar requirements are included in paragraph 57 of IFRS 18 with regards to cash and cash equivalents.²
 8. The submission asks how an entity with a main business activity of providing financing to customers classifies income and expenses applying paragraphs 65–66 of IFRS 18.
 9. The following fact pattern, developed using the examples in the submission, describes the question asked.

Fact pattern and question

10. To illustrate this question, assume a fact pattern involving a consolidated group, Group A.³ Group A consists of subsidiaries with different business activities:
 - (a) Subsidiary A is a manufacturing entity that does not have a specified main business activity in accordance with paragraph 49 of IFRS 18; and
 - (b) Subsidiary B 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.
11. 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 providing financing to customers in accordance with paragraph 49 of IFRS 18.

² Paragraph 57 of IFRS 18 requires an entity to classify income and expenses from cash and cash equivalents for an entity that provides financing to customers as a main business activity but that does not invest in financial assets within the scope of paragraph 53(c) as a main business activity to apply the accounting policy choice to classify income and expenses from all cash and cash equivalents in the operating category.

³ Question B of the submission (see appendix to Agenda Paper 4)

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12. 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 Group A (ie 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 (Question 1);
 - (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, of those liabilities that relate to providing financing to customers and those liabilities that do not (Question 2); and
 - (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 (Question 3).

Views on the application of the requirements in IFRS 18

13. For the purposes of applying the requirements in paragraph 65(a)(ii) of IFRS 18 in the consolidated financial statements (Question 1), the submitter identifies two views:
- (a) **View 1:** the consolidated group—Group A—is the reporting entity and the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 is applied to income and expenses from all Group A's liabilities that arise from transactions that involve only the raising of finance, but do not relate to providing financing to customers.

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- (b) **View 2:** the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 is applied to only the income and expenses from Subsidiary B's liabilities because it is the only subsidiary that has a main business activity of providing financing to customers.
14. For the purposes of applying the requirements in paragraph 66 of IFRS 18 (Question 2), the submitter identifies two views:
- (a) **View 1:** the requirement in paragraph 66 of IFRS 18 applies to *all* liabilities that arise from transactions that involve only the raising of finance when the entity can distinguish between some, but not all, of the liabilities that relate to providing financing to customers and those liabilities that do not.
- (b) **View 2:** the requirement in paragraph 66 of IFRS 18 applies only to the portion of liabilities that arise from transactions that involve only the raising of finance for which an entity cannot distinguish between those that relate to providing financing to customers and those that do not.
15. With regards to the consistency of the accounting policy choices in paragraphs 56(b)(ii) and 65(a)(ii) (Question 3), the submitter also identifies two views:
- (a) **View 1:** Group A is required to classify income and expenses from liabilities that do not relate to providing financing to customers in the operating category consistent with the classification of income and expenses from cash and cash equivalents.
- (b) **View 2:** If Group A cannot distinguish between cash and cash equivalents that relate to and do not relate to providing financing to customers, it applies paragraph 57 of IFRS 18 and not paragraph 56(b)(ii) of IFRS 18. Consequently, the requirement of consistency in accounting policy choice between paragraphs 65(a)(ii) and 56(b)(ii) of IFRS 18 does not apply. Therefore, Group A can still apply paragraph 65(a)(ii) of IFRS 18 when classifying income and expenses from liabilities that involve only the raising of finance but that do not relate to providing financing to customers; it is not

required to be consistent with its classification of income and expenses from cash and equivalents in the operating category.

16. 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

Classifying income and expenses applying paragraphs 65(a)(ii) and 66 of IFRS 18 (Questions 1 and 2)

Which liabilities does the accounting policy choice in paragraph 65(a)(ii) apply to (Question 1)?

17. Paragraph B37 of IFRS 18 states that an entity assesses whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets or providing financing to customers 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 that consolidated group could have different outcomes.
18. Therefore, when a consolidated group concludes that it provides financing to customers as a main business activity, the requirements in paragraph 65(a)(ii) of IFRS 18 apply to the consolidated group. In other words, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 applies to *all* the applicable liabilities of the consolidated group, and not only the liabilities of the subsidiary that has a main business activity of providing financing to customers.

Which liabilities does paragraph 66 of IFRS 18 apply to?

19. Paragraph 66 of IFRS 18 applies to an entity that provides financing to customers as a main business activity that cannot distinguish between:
- (a) liabilities that arise from transactions that involve only the raising of finance that relate to providing financing to customers; and
 - (b) liabilities that arise from transactions that involve only the raising of finance that do not relate to providing financing to customers.
20. Paragraph 66 of IFRS 18 requires the entity to classify income and expenses from ‘all such liabilities’ in the operating category. We think the reference to ‘such liabilities’ refers to the liabilities described in paragraphs 19(a) and 19(b) of this paper.
21. Consistently with our analysis in paragraphs 17–18 of this paper, when a consolidated group concludes that it provides financing to customers as a main business activity, the requirements in paragraph 66 of IFRS 18 apply to the consolidated group. Consequently, if the entity cannot distinguish even a portion of the liabilities described in paragraph 19(a) of this paper from the liabilities described in paragraph 19(b), it applies the requirements in paragraph 66 of IFRS 18 to *all* liabilities that arise from transactions that involve only the raising of finance.
22. Furthermore, paragraph BC184 of the Basis for Conclusions on IFRS 18 notes that if an entity cannot distinguish between which income and expenses from liabilities that arise from transactions that involve only the raising of finance relate to providing financing to customers, an entity applies the accounting policy choice to classify in the operating category *all* income and expenses from such liabilities.

Staff view

23. Based on our analysis, we conclude that:
- (a) the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 applies to income and expenses from *all* the applicable liabilities in the consolidated

group, and not only to the liabilities of the subsidiary that has a main business activity of providing financing to customers.

- (b) 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 when an entity cannot distinguish between *any portion* of liabilities that arise from transactions that involve only the raising of finance that relate to providing financing to customers and those liabilities that involve only the raising of finance that do not relate to providing financing to customers.

Consistency between liabilities not related to providing financing and cash and cash equivalents (question 3)

- 24. We think View 1, as described in paragraph 15(a) of this paper is the only appropriate application of the requirements in paragraphs 57 and 66 of IFRS 18. In particular:
 - (a) paragraphs 56(b)(ii) and 65(a)(ii) of IFRS 18 are both clear that the policy choice should be consistent between these paragraphs; and
 - (b) paragraphs 57 and 66 of IFRS 18 state that an entity ‘shall apply the *accounting policy choice ... to classify income and expenses ... in the operating category*’ [emphasis added].
- 25. Therefore, if an entity classifies income and expenses from cash and cash equivalents in the operating category (applying paragraph 57 of IFRS 18) because it cannot distinguish between cash and cash equivalents that relate to providing financing to customers and cash and cash equivalents that do not, 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 regardless of whether it can distinguish between those that relate to providing financing to customers and those that do not relate to providing financing to customers.

Summary of staff analysis

26. Based on our analysis in paragraphs 17–25 of this paper, we conclude that:
- (a) the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 should be applied to the reporting entity as a whole;
 - (b) an entity that can distinguish between some, but not all liabilities that relate to providing financing to customers from those that do not, classifies income and expenses from all liabilities that arise from transactions that involve only the raising of finance in the operating category; and
 - (c) an entity that classifies income and expenses from cash and cash equivalents in the operating category because it cannot make the distinction between those that relate to providing financing to customers and those that do not, applies the same classification to income and expenses from liabilities that do not relate to providing financing to customers.

Question for the Committee

Question for the Committee
1. Does the Committee agree with our analysis of the application of the requirements in IFRS 18 to the fact patterns as discussed in paragraphs 17–26 of this paper?

Assessment of paragraph 5.19 of the Handbook

27. 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.

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28. 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.
29. Based on our analysis set out in paragraphs 17–26 of this paper, in our view, the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine how to apply the accounting policy choice to classify specified income and expenses in either the operating category or another category in accordance with the requirements in paragraphs 56(b)–57 and 65–66 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

30. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (see paragraphs 27–29), 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.
31. 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.⁴

⁴ 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.’

Questions for the Committee

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?

Appendix—suggested wording for the tentative agenda decision**Classification of Income and Expenses when an Entity has a Main Business Activity of Providing Financing to customers (IFRS 18 *Presentation and Disclosure in Financial Statements*)**

The Committee received a request about how an entity that has a main business activity of providing financing to customers classifies income and expenses in its statement of profit or loss applying paragraphs 65–66 of IFRS 18.

The request asked:

- (a) whether, in preparing consolidated financial statements, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 applies to the entity as a whole or only to subsidiaries within the entity’s group that have a main business activity of providing financing to customers (Question 1);
- (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, of those liabilities that relate to providing financing to customers and those liabilities that do not (Question 2); and
- (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 (Question 3).

Applicable requirements

Paragraphs 56(b)–57 and 65–66 of IFRS 18 set out requirements specifying how an entity that provides financing to customers as a main business activity classifies income and expenses from:

- (a) cash and cash equivalents if the entity does not also have a main business activity of investing in financial assets within the scope of paragraph 53(c) of IFRS 18; and
- (b) liabilities that arise from transactions that involve only the raising of finance.

Applying the requirements*Question 1*

Paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Paragraph 65 of IFRS 18 applies to an entity that provides financing to customers as a main business activity.

The Committee observed that when a consolidated group concludes that it provides financing to customers as a main business activity, the requirements in paragraph 65(a)(ii) of IFRS 18 apply to the consolidated group. In other words, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 applies to all the applicable liabilities of the consolidated group, and not only the liabilities of the subsidiaries within the consolidated group that have a main business activity of providing financing to customers.

Question 2

Paragraph 66 of IFRS 18 applies to an entity that provides financing to customers as a main business activity that cannot distinguish between:

- (c) liabilities that arise from transactions that involve only the raising of finance that relate to providing financing to customers; and
- (d) liabilities that arise from transactions that involve only the raising of finance that do not relate to providing financing to customers.

Paragraph 66 of IFRS 18 requires the entity to classify income and expenses from ‘all such liabilities’ in the operating category.

The Committee observed that when a consolidated group concludes that it provides financing to customers as a main business activity, the requirements in paragraph 66 of IFRS 18 apply to the consolidated group. Consequently, if the entity cannot distinguish even a portion of the liabilities that arise from transactions that involve only the raising of finance that relate to providing financing to customers from the liabilities that arise from transactions that involve only the raising of finance that do not relate to providing financing to customers, it applies the requirements in paragraph 66 to all liabilities that arise from transactions that involve only the raising of finance.

Question 3

Paragraph 56(b)(ii) requires the choice of accounting policy made by the entity in accordance with that paragraph to be consistent with the choice of accounting policy made by the entity in accordance with paragraph 65(a)(ii). Similarly, paragraph 65(a)(ii) requires the choice of accounting policy made by the entity in accordance with that paragraph to be consistent with the choice of accounting policy made by the entity in accordance with paragraph 56(b)(ii).

Consequently, the Committee observed that if, as required by paragraph 57 of IFRS 18, an entity applies the accounting policy choice in paragraph 56(a)(ii) to classify 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, 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 regardless of whether the entity can distinguish

between those liabilities that relate to providing financing to customers and those that do not relate to providing financing to customers.

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 providing financing to customers to classify income and expenses from liabilities that arise from transactions that involve only the raising of finance. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.