
IFRS® Interpretations Committee meeting

Date	June 2026
Project	Assessment of Specified Main Business Activities for a Manufacturer-Lessor (IFRS 18)
Topic	Initial consideration
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity that is a manufacturer-lessor assesses whether its operating lease activity is a specified main business activity—that is, a main business activity of providing financing to customers or investing in assets—applying the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements*.
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 conclusion 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) [background and summary of the submission](#) (paragraphs 5–10);
 - (b) [staff analysis](#) (paragraphs 11–34); and
 - (c) [staff conclusion and recommendation](#) (paragraphs 35–36).
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. The submission describes a fact pattern in which an entity manufactures vehicles and either sells or leases them to customers. The entity:
 - (a) manages vehicle sales, finance leases and operating leases together in one line of business. The entity's segments are based on geographical regions (that is, are not based on product lines).
 - (b) classifies the leases, which do not differ significantly in nature, as either finance or operating leases applying IFRS 16 *Leases*.
 - (c) enters into a refinancing arrangement with a bank for each lease contract, regardless of whether it is a finance or an operating lease. The refinancing arrangement bridges the cash flows the entity receives compared to what it would have received in a sale. The refinancing arrangements generate significant interest expenses.
 - (d) uses, both for internal and external reporting purposes, one subtotal similar to gross profit as an important indicator of operating performance for its aggregated

lease activity, comprising its finance lease activity and its operating lease activity. We understand from discussions with the submitter that this gross profit-like subtotal includes income and expenses from finance and operating leases as well as interest expense on the refinancing arrangements.

6. The submitter asks, for the fact pattern described in the submission:
 - (a) whether the entity’s operating lease activity is a specified main business activity—that is, a main business activity of either providing financing to customers or investing in assets (Question 1); and
 - (b) how to consider, in assessing Question 1, the example in paragraph B34 of IFRS 18¹ given the entity uses one gross profit-like performance indicator for the aggregate of its lease activities (Question 2).
7. We understand from discussions with the submitter that the income and expenses from the entity’s operating leases might, applying the requirements in IFRS 18, be classified in the operating category of the statement of profit or loss regardless of whether the operating lease activity is a specified main business activity. However, the submitter informed us that the assessment of whether the operating lease activity is a specified main business activity affects, among other things, the classification of interest expense on the refinancing arrangements related to the operating leases.
8. Paragraph 9 of this paper summarises the views identified by the submitter for Question 1 and paragraph 10 provides further details of Question 2. The submission—reproduced in [Appendix B](#) to this paper—includes further information about the views, their rationale and the expected consequences of applying each view.

¹ Paragraph 18 of this paper reproduces paragraph B34 of IFRS 18.

Is operating lease activity a specified main business activity? (Question 1)

9. The submitter identified three views for Question 1:
- (a) View 1—the operating lease activity is a main business activity of providing financing to customers.
 - (b) View 2—the operating lease activity is a main business activity of investing in assets.
 - (c) View 3—the operating lease activity is not a main business activity of either providing financing to customers or investing in assets.

How to consider the example in paragraph B34 of IFRS 18? (Question 2)

10. The entity described in the submission uses one gross profit-like performance indicator for the aggregate of its lease activity. The submitter asks whether the finance lease activity (or the operating lease activity) can be a specified main business activity in accordance with paragraph B34 of IFRS 18—reproduced in paragraph 18 to this paper—given the gross profit-like performance indicator the entity uses does not include the income and expenses from *only* the finance lease activity (or the operating lease activity).

Staff analysis

11. Paragraph 5.19 of the IFRS Foundation's [Due Process Handbook](#) (*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

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- (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 the existing Standards and the *Conceptual Framework for Financial Reporting*; 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)

- 12. The purpose of any information request we send to stakeholders is to understand whether a submission meets the criterion 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
 - (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.
- 13. We did not send an information request related to this submission for the following reasons:

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- (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) the questions in the submission (the matter) affect all entities that both manufacture products and lease those products to customers (for example, vehicle manufacturers, equipment manufacturers, and other industrial companies with significant leasing operations) and, therefore, are widespread.
 - (ii) they are aware of entities concluding the requirements are unclear as those entities work through their IFRS 18 implementation projects.
 - (iii) there could be materially different financial reporting consequences of applying each view (as outlined in ‘the impact’ section of the submission which is reproduced in Appendix B to this paper).
- (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 informed us of discussions they have had on similar questions as that raised by the submitter, and these conversations confirmed that stakeholders understand the applicable requirements differently.
14. In our view, the evidence gathered indicates the matter could have widespread effect because:
- (a) the questions could affect all manufacturer-lessors.
 - (b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective—see ‘the impact’ section of the submission in Appendix B for details.

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15. 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 question submitted.

Assessment of paragraph 5.19(b)

Applicable requirements

16. Paragraphs 49–50 of IFRS 18 state:

49. To classify income and expenses in the operating, investing and financing categories [in the statement of profit or loss], an entity shall assess whether it has a specified main business activity—that is a main business activity of (see paragraphs B30–B41):

- (a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53); or
- (b) providing financing to customers.

50. Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.

17. Paragraph 53 of IFRS 18 states:

Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:

- (a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);
- (b) cash and cash equivalents; and
- (c) other assets if they generate a return individually and largely independently of the entity’s other resources (see paragraphs B45–B49).

18. Paragraphs B30–B41 of IFRS 18 provide application guidance for the requirements in paragraph 49. In particular, paragraphs B31–B34 state:

B31 Examples of entities that might invest in assets as a main business activity include:

- (b) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;
- (b) investment property companies; and
- (c) insurers.

B32 Examples of entities that might provide financing to customers as a main business activity include:

- (a) banks and other lending institutions;
- (b) entities that provide financing to customers to enable those customers to buy the entity’s products; and
- (c) lessors that provide financing to customers in finance leases.

B33 Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a

main business activity and that assessment shall be based on evidence.

B34 In general, investing in assets or providing financing to customers is likely to be a main business activity of an entity if the entity uses a particular type of subtotal as an important indicator of operating performance. The particular type of subtotal is a subtotal similar to gross profit (see paragraph B123) that includes income and expenses that would be classified in the investing or financing categories if investing in assets or providing financing to customers were not main business activities.

Applying the applicable requirements

19. An entity applies the requirements in IFRS 18 (including paragraph 49 and the related application guidance in paragraphs B30–B41) in assessing whether it has a specified main business activity—that is, a main business activity of investing in assets or providing financing to customers. As paragraph B33 of IFRS 18 states, an entity uses its judgement when assessing whether investing in assets or providing financing to customers is a main business activity and bases that assessment on evidence.
20. Our analysis below considers:
 - (a) whether the entity has a main business activity of providing financing to customers (paragraphs 22–27); and
 - (b) whether the entity’s operating lease activity is a main business activity of investing in assets (paragraphs 28–29).
21. We consider the application of paragraph B34 of IFRS 18 as part of our analysis of whether the entity has a main business activity of providing financing to customers (see

paragraph 24 of this paper). Consequently, we have not separately analysed Question 2 in the submission (which is summarised in paragraph 10 of this paper).

Does the entity have a main business activity of providing financing to customers?

22. Paragraph 49(b) of IFRS 18 (reproduced in paragraph 16 of this paper) requires an entity to assess whether it has a main business activity of providing financing to customers. Paragraphs B30–B41 of IFRS 18 include application guidance to help the entity make this assessment.
23. The submission notes that the entity manages both its finance leases and operating leases (and vehicle sales) in one line of business. In applying IFRS 16, some leases are classified as finance leases and some leases are classified as operating leases. The entity also enters into a refinancing arrangement for each lease contract, regardless of whether the lease is classified as a finance or an operating lease, to bridge the cash flows received through the lease compared to a sale.
24. Paragraph B34 of IFRS 18 (reproduced in paragraph 18 of this paper) states that providing financing to customers (or investing in assets) is likely to be a main business activity of an entity if the entity uses a gross profit-like subtotal as an important indicator of operating performance—and that subtotal includes income and expenses that would be classified in the investing or financing category if providing financing to customers (or investing in assets) was not a main business activity for the entity. As paragraph 5(d) of this paper notes, the entity described in the submission uses one subtotal similar to gross profit for its aggregated lease activity, and that subtotal includes income and expenses from both finance and operating lease arrangements as well as interest expense on the related refinancing arrangements. We think the entity’s use of this gross profit-like subtotal evidences that the entity’s aggregated lease activity is likely to be a main business activity of providing financing to customers.

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25. We think the classification of a lease as an operating lease does not preclude that arrangement from being of a type that provides financing to a customer (lessee). We note:
- (a) by definition, a lease—whether an operating lease or a finance lease—provides a lessee with the right to control the use of an identified asset for a period of time in exchange for consideration.²
 - (b) the IASB’s rationale for developing the requirements for lessee accounting in IFRS 16—discussed in the Basis for Conclusions on IFRS 16—confirms its views that all leases provide financing. For example:
 - (i) paragraph BC15 of the Basis for Conclusions on IFRS 16 states ‘...the IASB decided to adopt a single lessee accounting model in which a lessee would account for all leases as providing finance...’.
 - (ii) paragraph BC45(a) states that ‘some stakeholders, including most users of financial statements, were of the view that all leases provide finance to lessees and thus, create assets and ‘debt-like’ liabilities’.
 - (c) in developing IFRS 16, the IASB decided to substantially carry forward the lessor accounting model in IAS 17 *Leases* primarily because it could not justify the cost associated with making changes to the lessor accounting model (see paragraph BC58 of the Basis for Conclusions on IFRS 16) and not because it did not view operating leases as not providing financing.
26. We think paragraph B32 of IFRS 18 (reproduced in paragraph 18 of this paper) does not preclude a lessor that provides financing to customers in operating leases or a lessor that provides financing to customers in both operating and finance leases from being an entity that provides financing to customers as a main business activity. That paragraph lists examples of some entities that might provide financing to customers as a main business

² See paragraph 9 of IFRS 16.

activity—including in paragraph B32(c) ‘lessors that provide financing to customers in finance leases’. Paragraph B32 does not provide an exhaustive list of entities that might provide financing to customers as a main business activity.

27. An entity would consider all the applicable requirements (including paragraph 49 of IFRS 18 and the application guidance in paragraphs B30–B41) in assessing whether the aggregated lease activity is a main business activity of providing financing to customers. While any conclusion would depend on considering all facts and circumstances, given the facts included in the submission, we think it is likely that the entity’s aggregated lease activity is a main business activity of providing financing to customers.

Is the entity’s operating lease activity a main business activity of investing in assets?

28. Paragraph 49(a) of IFRS 18 (reproduced in paragraph 16 of this paper) requires an entity to assess whether it has a main business activity of investing in particular types of assets (the assets listed in paragraph 53 of IFRS 18). Applying paragraph 49(a), the entity first assesses whether the assets subject to operating leases are assets of the type listed in paragraph 53(c) of IFRS 18—that is, whether the assets subject to operating leases generate a return individually and largely independently of the entity’s other resources.³ If the entity concludes that the assets subject to operating leases are assets of the type listed in paragraph 53(c) of IFRS 18, it then applies paragraphs B30–B41 to assess whether its operating lease activity is a main business activity of investing in assets.
29. An entity would consider all the applicable requirements (including paragraph 49 of IFRS 18 and the application guidance in paragraphs B30–B41) in assessing whether the operating lease activity is a main business activity of investing in assets. While any conclusion would depend on considering all facts and circumstances, given the facts included in the submission, we think it is unlikely that the entity’s operating lease activity

³ The assets subject to operating leases are not investments in associates, joint ventures and unconsolidated subsidiaries and are not cash and cash equivalents. Consequently, the assets listed in paragraph 53(a)–(b) of IFRS 18 are not relevant to this assessment (paragraph 17 of this paper reproduces paragraph 53 of IFRS 18).

is a main business activity of investing in assets. We note, for example, that the entity's use of one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity suggests the entity does not have a separate main business activity related to only its operating lease activity.

Conclusion on the application of the requirements

30. An entity applies the requirements in IFRS 18 (including paragraph 49 and the application guidance in paragraphs B30–B41) in assessing whether an activity is a specified main business activity—that is, a main business activity of investing in assets or providing financing to customers. In making that assessment, an entity uses its judgement and considers all its relevant facts and circumstances.
31. While any conclusion on whether, in the fact pattern described in the submission, the entity's operating lease activity is a specified main business activity would depend on considering all facts and circumstances, given the facts included in the submission, we think:
- (a) it is likely that the entity's aggregated lease activity comprising its finance lease activity and its operating lease activity is a main business activity of providing financing to customers. In particular:
 - (i) this assessment is evidenced by the entity's use of one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity.
 - (ii) the classification of a lease as an operating lease does not preclude that arrangement from being of a type that provides financing to a customer.
 - (iii) paragraph B32 of IFRS 18 does not include an example of an entity that provides financing to customers in operating leases as a type of entity that might provide financing to customers as a main business activity.However, this does not preclude a lessor that provides financing to

customers in operating leases or a lessor that provides financing to customers in both operating and finance leases from being an entity that provides financing to customers as a main business activity.

- (b) it is unlikely that the entity's operating lease activity is a main business activity of investing in assets. We note that, for example, the entity's use of one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity suggests the entity does not have a separate main business activity related to only its operating lease activity.

Question 1 for the Committee

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 summarised in paragraphs 30–31 of this paper?

Is the criterion in paragraph 5.19(b) met?

32. As set out in paragraph 11 of this paper, 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.
33. Based on our analysis set out in paragraphs 16–29 of this paper and as summarised in paragraphs 30–31, we think the principles and requirements in IFRS 18 provide an adequate basis for an entity that is a manufacturer-lessor to assess whether its operating lease activity is a specified main business activity.
34. 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 conclusion and recommendation

35. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (summarised in paragraphs 15 and 34 of this paper), we recommend that the Committee publishes a tentative agenda decision, in accordance with paragraph 8.2 of the *Handbook*, that explains how an entity that is a manufacturer-lessor assesses, when applying IFRS 18, whether its operating lease activity is a specified main business activity.
36. [Appendix A](#) 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.⁴

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 [Appendix A](#)?

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 Accounting Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—Suggested wording of the tentative agenda decision

Assessment of Specified Main Business Activities for a Manufacturer-Lessor (IFRS 18 *Presentation and Disclosure in Financial Statements*)

The Committee received a request about how an entity that is a manufacturer-lessor assesses whether its operating lease activity is a specified main business activity—that is, a main business activity of providing financing to customers or investing in assets—applying the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements*.

Fact pattern

The request describes a fact pattern in which an entity manufactures vehicles and either sells or leases them to customers. The entity:

- (a) manages vehicle sales, finance leases and operating leases together in one line of business. The entity's segments are based on geographical regions (that is, are not based on product lines).
- (b) classifies the leases, which do not differ significantly in nature, as either finance or operating leases applying IFRS 16 *Leases*.
- (c) enters into a refinancing arrangement with a bank for each lease contract, regardless of whether it is a finance or an operating lease. The refinancing arrangement bridges the cash flows the entity receives compared to what it would have received in a sale. The refinancing arrangements generate significant interest expenses.
- (d) uses, both for internal and external reporting purposes, one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity, comprising its finance lease activity and its operating lease activity. This gross profit-like subtotal includes income and expenses from finance and operating leases as well as interest expense on the refinancing arrangements.

Question

The request asked whether the entity's operating lease activity is a main business activity of either providing financing to customers or investing in assets.

Applicable requirements

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—that is a main business activity of investing in particular type of assets (investing in assets) or providing financing to customers.

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 or providing financing to customers 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 or providing financing to customers is a main business activity and to base that assessment on evidence.
- (b) paragraphs B34–B36 of IFRS 18 discuss factors that might 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.

Applying the requirements in IFRS 18 to the fact pattern

An entity applies the requirements in IFRS 18 (including paragraph 49 and the application guidance in paragraphs B30–B41) in assessing whether an activity is a specified main business activity of investing in assets or providing financing to customers. In making that assessment, an entity uses its judgement and considers all its relevant facts and circumstances.

The Committee observed that while any conclusion on whether, in the fact pattern described in the request, the entity's operating lease activity is a specified main business activity would depend on considering all facts and circumstances, given the facts included in the request:

- (a) it is likely that the entity's aggregated lease activity comprising its finance lease activity and its operating lease activity is a main business activity of providing financing to customers. In particular:
 - (i) this assessment is evidenced by the entity's use of one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity.
 - (ii) the classification of a lease as an operating lease does not preclude that arrangement from being of a type that provides financing to a customer.
 - (iii) paragraph B32 of IFRS 18 does not include an example of an entity that provides financing to customers in operating leases as a type of entity that might provide financing to customers as a main business activity. However, this does not preclude a lessor that provides financing to customers in operating leases or a lessor that provides financing to customers in both operating and finance leases from being an entity that provides financing to customers as a main business activity.
- (b) it is unlikely that the entity's operating lease activity is a main business activity of investing in assets. The Committee observed that, for example, the entity's use of one subtotal similar to gross profit as an important indicator of operating performance for its aggregated lease activity suggests the entity does not have a separate main business activity related to only its operating lease activity.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity that is a manufacturer-lessor to assess whether its operating lease activity is a specified main business activity. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

Appendix B—Submission

Fact pattern

An entity has two lines of business:

Line A: Producing vehicles. After production, the vehicles are either sold or leased out via finance leases or leased out via operating leases. Line A contributes about 75% to the gross profit of the entity. Each of the three business activities within line A (i.e., selling, finance leases and operating leases) contributes about 1/3 to the gross profit of line A.

Line B: Service and maintenance. Line B contributes about 25% to the gross profit of the entity.

Therefore, each of the four business activities is significant.

The entity's segments are organised by region.

The entity uses (internally and externally) one gross profit-like performance indicator for business line A, one for business line B and one for the aggregate of the leasing activities (i.e., for finance leases and operating leases together).

While the lease arrangements do not differ significantly in nature, for accounting purposes some of them are classified as finance leases and others as operating leases, because some of them last over five years (major part of the economic life), others only over three years (not major part of the economic life). For each lease arrangement, regardless of whether it is a finance lease or an operating lease, a corresponding refinancing arrangement with a bank is entered into (in order to bridge the missing cash inflows compared to a sale), corresponding to the amount of the lease and the lease term. The refinancing arrangements generate significant interest expenses.

We thank you for the opportunity to submit a potential agenda item to the IFRS Interpretations Committee ("Committee"). As part of the implementation of IFRS 18, the below question arose with resultant differing views on the scope of the disclosure requirements set out in IFRS 18.83 that was intended by the International Accounting Standards Board.

Question 1

Do operating lease-activities of a manufacturer lessor constitute a specified business activity of either “providing financing to customers” or “investing in assets”?

View 1: The operating lease activities in this fact pattern constitute a specified business activity “providing financing to customers”.

Providing financing to customers is not defined in IFRS 18 or other accounting standards. While *finance lease*-activities are mentioned as an example for providing financing to customers (B32(c)), proponents of this view believe that from an economic point of view, i.e., from the **business perspective** of the lessor, both finance leases and operating leases are similar in that respect that customers may use a product of the lessor over a period of time and they do not have to pay at the beginning of the period but rather over the period of use. Such a period of use can take several years even under operating leases. Hence, if providing financing to customers is understood as “use now, pay over time”, under both forms of leases the customer is granted a form of financing. This view is supported by the fact that for both, finance leases and operating leases, the entity enters into re-financing arrangements to compensate the missing cash-inflow (compared to a sale) at the beginning of the period of use. This evidences that from the perspective of the lessor there is no difference whether the product is leased out by way of finance lease or by way of operating lease. Proponents of this view accept that operating leases are not mentioned in B32. However, since there is nothing explicit in the standard that would prohibit this view and since they believe, as described, both forms of leases provide financing to customers economically, finance lease activities and operating lease activities in this fact pattern can be seen together as one specified business activity “providing financing to customers”. The fact that for accounting purposes under IFRS 16 finance leases and operating leases are treated significantly differently does not hinder this view, since proponents believe that the distinction between finance leases and operating leases for accounting purposes is somewhat artificial and the border between these two forms is judgmental anyway.

View 2: The operating lease activities in this fact pattern constitute a specified business activity “investing in assets”.

Proponents of this view believe that operating lease-activities are not mentioned as an example for providing financing to customers in B32 for a good reason. The reason is that determining which leasing activities are a form of providing financing to customers and which are not, should not be answered from an economic perspective (as under view 1), but should rather be answered from an **accounting perspective**. For accounting purposes IFRS 16 distinguishes between finance leases and operating leases based on whether substantially all the risks and rewards are transferred. Only when this is the case, the asset is substantially bought by the customer, but payment from the customer is deferred. This equals a traditional understanding of “providing financing”. In contrast, under an operating lease the asset is not substantially bought by the customer. Hence this is not seen as “providing financing to customers” since the customers pays as it uses the asset.

However, proponents of this view believe that the operating lease activities constitute a specified business activity “investing in assets”. “Investing in assets” is just as undefined as providing financing to customers. Proponents of this view believe that (a) “investing” is neutral as to whether the assets are purchased by the lessor or produced by the lessor (in this case produced) and (b) it is a typical feature for investing in assets that the assets that are invested in generate a return individually which is given in the fact pattern. Hence, producing the assets and leasing them out is similar to purchasing securities and earning increases in value and/or dividends or producing investment properties and earning rental income from them.

View 3: The operating lease activities in this fact pattern do not constitute a specified business activity at all.

Proponents of this view believe that operating lease activities are not to be seen as “providing financing to customers” for the reasons given under view 2.

They believe that such activities are also not to be seen as “investing in assets” since the assets are not produced with the purpose of leasing them out. Rather, they are produced with the intention of selling them or leasing them out. This is different to a traditional understanding of investing in assets, which means that the asset invested in is not sold but used to earn income other than a selling profit. Also, in order to have a SMBA investing in assets, the entity must invest in assets that meet the definition of 53a, 53b- or 53-assets. Since the vehicles are the result of the production process using several resources of the entity, they do not meet the definition of 53c-assets (53a and 53b are not applicable anyway).

Question 2

Do the finance lease activities of a manufacturer lessor constitute a main business activity under the example of B34 if they are monitored together with operating lease-activities? (The same question can be asked in relation to the operating lease activities that are monitored together with finance leases)

View 1: The finance lease activities in this fact pattern do not constitute a main business activity under the example of B34.

In accordance with B34, the usage of a gross profit-like subtotal is a strong indicator for a main business activity. However, as required by BC180, the subtotal should include (only) the income and expense of *that* activity (BC180 (emphasis added): “If an entity provides financing to customers as a main business activity, the difference between the interest revenue from *that* main business *activity* and the interest expense incurred to obtain the financing needed for *that* main business *activity* is an important measure of the entity’s operating performance (see paragraphs BC94–BC102)”. Hence, in the fact pattern under review as the subtotal includes both, significant finance leases and significant operating leases, this subtotal is not a strong indicator under B34, because the subtotal monitored internally does not isolate that activity.

However, the absence of an indicator under B34 is not determinative for the question whether the business activity is a main business activity. It can nevertheless meet the requirements of B33.

View 2: The finance lease activities in this fact pattern constitute a main business activity under the example of B34.

In accordance with B34, the usage of a gross profit-like subtotal is a strong indicator for a main business activity. The standard itself does not require that the subtotal must only include income and expenses from that activity. Hence, the fact that a significant other activity is included does not harm. Hence, in the fact pattern under review the finance lease activities constitute a main business activity.

The impact

The assessment under questions 1 and 2 have, depending on the outcome, the following consequences:

- Scenario 1: Two different SMBAs

If it is determined that the entity has two different SMBAs (one being “providing financing to customers” for the finance lease activities and the other being “investing in assets” for the operating lease activities) then:

- a respective disclosure is made (IFRS 18.51),
- the income and expenses from the finance leases are classified in the operating category (IFRS 18.B48(c)),
- the income and expenses from the operating leases are classified in the operating category (IFRS 18.58),
- interest income from cash & cash equivalents that relate to finance leases only is classified in the operating category (IFRS 18.56(b)(i)) and from others may be classified in the operating category (IFRS 18.56(b)(ii)), and
- interest expenses from financing liabilities that relate to finance leases (but not to operating leases) are mandatorily classified in the operating category (IFRS 18.65(a)(i)), and

- classification of interest-related cashflows follows the complex requirements in IAS 7.34B-34D, for which it is for example relevant whether interest income (and interest expenses respectively) in the statement of profit or loss are classified in a single category or in more than one category, which is influenced by the application of the provisions mentioned in the previous bullet points.

- ***Scenario 2: One SMBA for both leasing activities***

If it is determined that the entity has one SMBA (“providing financing to customers” for both, finance lease activities and operating lease activities) then

- a respective disclosure is made (IFRS 18.51),
- the income and expenses from the finance leases and from the operating leases are classified in the operating category (IFRS 18.B48(c)),
- interest income from cash & cash equivalents that relate to both, finance leases and operating leases is classified in the operating category (IFRS 18.56(b)(i)) and from others may be classified in the operating category (IFRS 18.56(b)(ii)), and
- interest expenses from financing liabilities that relate to both, finance leases and operating leases are mandatorily classified to the operating category (IFRS 18.65(a)(i)), and
- classification of interest-related cashflows follows the complex requirements in IAS 7.34B-34D.

- ***Scenario 3: One SMBA for finance leases only***

If it is determined that the entity has one SMBA (“providing financing to customers” for finance leases only) then:

- a respective disclosure is made (IFRS 18.51),
- the income and expenses of the finance leases are classified in the operating category (IFRS 18.B48(c)),
- interest income from cash & cash equivalents that relate to finance leases only is classified in the operating category (IFRS 18.56(b)(i)) and from others may be classified in the operating category (IFRS 18.56(b)(ii)), and
- interest expenses from financing liabilities that relate to finance leases (but not to operating leases) are mandatorily classified in the operating category (IFRS 18.65(a)(i)). Therefore, the lease term, among other factors, influences whether the interest expense of the lessor

are part of the operating category (finance leases) or part of the financing category (operating leases), and

- classification of interest-related cashflows follows the complex requirements in IAS 7.34B-34D.

- ***Scenario 4: No SMBA***

If it is determined that the entity has no SMBA (e.g., because for the assessment under B34 view 1 (question 2) is applied and there is no other evidence under B33 available that would lead to a main business activity) then:

- no disclosure under IFRS 18.51 is made,
- the income and expenses from the finance leases are classified in the operating category (IFRS 18.B48(c)),
- the income and expenses from the operating leases are classified in the operating category or in the investing category, depending on whether the assessment under IFRS 18.53(c) (i.e. the “largely independent”-test) leads to operating assets or to non-operating assets.
- interest income from cash & cash equivalents is classified in the investing category (IFRS 18.53(b)), and
- interest expenses from financing liabilities that relate to finance leases and operating leases are classified in the financing category (IFRS 18.60), and
- classification of interest-related cash outflows to the cashflows from financing activities (IAS 7.34A(a)).

The matter is widespread since it applies to all manufacturer lessors.

There is currently no clear view on questions 1 and 2 that would have emerged in practice, in literature or amongst auditors. Hence, diversity in practice is expected.