Staff paper

Agenda reference: 8

IFRS® Interpretations Committee meeting

Date	**November 2026**
Project	**Entities with specified main business activities**
Topic	**Classifying income and expenses applying paragraph 65(a)(ii) of IFRS 18—Comment letters**
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Introduction

1. At its June 2026 meeting, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a question about how an entity that has a main business activity of providing financing to customers, classifies income and expenses from liabilities that arise from transactions that involve only the raising of finance (referred to hereafter as specified liabilities).

2. The objective of this paper is:

   (a) to summarise and analyse comments on the tentative agenda decision; and

   (b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure of this paper

3. This paper includes:

   (a) background (paragraphs 5–10);

   (b) comment letter summary (paragraphs 11–13);

(c) staff analysis (paragraphs 14–52); and

(d) staff recommendations and questions for the Committee (paragraphs 53–57).

4. This paper includes three appendices:

(a) Appendix A—Suggested wording of the agenda decision;

(b) Appendix B—Excerpts from IFRS 18; and

(c) Appendix C—Concerns about potential outcomes

Background

5. The submission asked:

(a) whether, in preparing consolidated financial statements, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 *Presentation and Disclosure in Financial Statements* 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 specified liabilities even if the entity can distinguish some, but not all, specified liabilities that relate to providing financing to customers from those that do not (Question 2); and

(c) whether, applying paragraph 57 of IFRS 18, an entity that classifies income and expenses from cash and cash equivalents in the operating category because it cannot distinguish cash and cash equivalents that relate to providing financing to customers from those that do not, is required to apply the same classification to income and expenses from specified liabilities, even if it can distinguish those that relate to providing financing to customers from those that do not (Question 3).

Applicable requirements

6. Paragraphs 56(b)–57, 65(a) and 66 of IFRS 18—reproduced in Appendix B to this paper—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) specified liabilities.

Applying the requirements in IFRS 18

Question 1

7. The Committee observed that when a reporting entity that is 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 as a whole. Consequently, the accounting policy choice in paragraph 65(a)(ii) applies to all the specified liabilities of the consolidated group that do not relate to providing financing to customers, and not only those specified liabilities of the subsidiaries in the consolidated group that have a main business activity of providing financing to customers.

Question 2

8. The Committee observed that if an entity cannot distinguish the specified liabilities that relate to providing financing to customers from those that do not, the entity is required to classify the income and expenses from all specified liabilities in the operating category of the statement of profit or loss. That is, the reference to ‘all such

liabilities' in paragraph 66 of IFRS 18 refers to all of the specified liabilities of the consolidated group in the fact pattern.[1]

Question 3

9. The Committee observed that, if, as required by 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 those that do not, the entity is required to apply the same classification to income and expenses from specified liabilities. The entity is required to do so regardless of whether it can distinguish between the specified liabilities that relate to providing financing to customers and those that do not.

Conclusion

10. The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for the entity described in the fact pattern to determine how to classify income and expenses from specified liabilities in its statement of profit or loss. Consequently, the Committee decided that a standard-setting project is not needed and it instead published a tentative agenda decision.

Comment letter summary

11. We received 16 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website.[2] This agenda paper includes analysis of only the comment letters received by the comment letter deadline.

[1] The Committee's analysis considered the requirements in paragraphs 65(a) and 66 of IFRS 18 and accompanying material including paragraph BC183 of the Basis for Conclusions on IFRS 18 and Figures 3.2–3.3 of the Illustrative Examples on IFRS 18. Appendix B to this paper reproduces these paragraphs and materials.

[2] At the date of posting this agenda paper, there were no late comment letters.

12. Respondents generally commented separately on the three questions in the tentative agenda decision. Of the 16 respondents:

    (a) twelve respondents commented on Question 1. All of these respondents agree (or do not disagree) with the Committee's analysis and conclusions as set out in the tentative agenda decision.

    (b) all sixteen respondents commented on Question 2. Most of these respondents disagree that there is only one reasonable reading of the requirement in paragraph 66 of IFRS 18.

    (c) eleven respondents commented on Question 3. Many of these respondents agree (or do not disagree) with the Committee's conclusion that a standard-setting project is not needed to address the question. However, some respondents disagree that there is only one reasonable reading of the requirements.

13. Notwithstanding their agreement or disagreement with the Committee's analysis and conclusions, respondents—some for Questions 1 and 3 and most for Question 2—express concern about potential outcomes of applying the requirements in IFRS 18 as explained in the tentative agenda decision.

Staff analysis

14. In this section we summarise and analyse feedback on each of the questions in the tentative agenda decision. This section is structured as follows:

    (a) Committee's technical analysis and conclusions on all three questions (paragraphs 15–40);

    (b) need for standard setting (paragraphs 41–48);

    (c) concerns about potential outcomes (paragraphs 49–50); and

    (d) other comments (paragraphs 51–52).

Committee's technical analysis and conclusions

Question 1

Feedback

15. All respondents agree (or do not disagree) with the Committee's analysis and conclusions in paragraph 7 of this paper.

16. Nonetheless, a few respondents make the following drafting suggestions:

    (a) The Group of Latin American Accounting Standard Setters (GLASS) and the Saudi Organization for Chartered and Professional Accountants (SOCPA) suggest adding a reference to paragraph B37 of IFRS 18 to explain that an entity assesses whether it has a specified main business activity for the reporting entity as a whole. They say this would help support the Committee's observation that the requirements in paragraph 65(a)(ii) of IFRS 18 apply to the consolidated group as a whole.

    (b) GLASS also suggests referring to an entity's consolidated financial statements instead of the consolidated group to clarify that all entities in the group are not required to make same the same classification in their separate financial statements.

Staff analysis

17. Based on respondents' feedback, we continue to agree with the Committee's analysis and conclusions in Question 1.

18. With regards to respondents' drafting suggestions set out in paragraph 16 of this paper:

    (a) the Committee's analysis of Question 1 as set out in the tentative agenda decision already sets out that the assessment of whether an entity provides financing to customers as a main business activity applies to the entity as a whole. Nonetheless, we agree it could be useful to specifically refer to

paragraph B37 of IFRS 18 in the analysis of Question 1. We have added such a reference in Appendix A to this paper which sets out the suggested wording for the agenda decision.

(b) we think it is better to retain the wording 'reporting entity that is a consolidated group'. This phrase is from paragraph B37 of IFRS 18 and using a different term could be confusing.

Question 2

Feedback

19. Of the 16 respondents:

(a) eleven respondents (across all stakeholder groups) disagree that the Committee's conclusion as set out in the tentative agenda decision is the only reasonable reading of the requirements; and

(b) five respondents—the Accounting Standards Board of Japan (ASBJ), CPA Australia, GLASS, the Malaysian Accounting Standards Board and SOCPA—agree (or do not disagree) with the Committee's conclusion.

20. The respondents that disagree that the Committee's conclusion as set out in the tentative agenda decision (referred to as the Committee's view in this section), say the meaning of 'such liabilities' in paragraph 66 of IFRS 18 is unclear. They say another possible reading of the requirements is for 'such liabilities' to refer to only the portion of specified liabilities for which an entity cannot distinguish between those that relate to providing financing to customers and those that do not (referred to as the alternative view in this section).

21. EY says while the Committee's view is a reasonable reading of the requirements, the alternative view is a more appropriate reading because paragraphs 65 and 66 of IFRS 18 should be read together as a sequential classification model. They say:

> Paragraph 65 first requires an entity to distinguish between specified liabilities that relate to providing financing to customers

> and those that do not. Paragraph 66 then addresses the specific circumstance in which an entity is unable to make that distinction for a particular specified liability or liabilities. Accordingly, we view paragraph 66 as a limited exception that applies only to those specified liabilities whose relationship to providing financing to customers cannot be determined, rather than as a requirement that overrides the classification outcome for all specified liabilities.

22. Respondents that disagree also say the references in the tentative agenda decision to paragraph BC183 of the Basis for Conclusions on IFRS 18 does not provide clear support for only the Committee's view. KPMG says the alternative view would also result in 'the outcome described in [paragraph] BC183, which is that income and expenses from specified liabilities that relate to providing financing to customers would be classified in the operating category'.

23. Similarly, many respondents say that, collectively, paragraphs BC180–BC185 of the Basis for Conclusions on IFRS 18 could be read as supporting either the Committee's view (for reasons set out in the tentative agenda decision) or the alternative view. For example, paragraph BC185 of the Basis for Conclusions on IFRS 18, states:

> … more useful information would result from an entity classifying in the operating category income and expenses from liabilities only to the extent those liabilities relate to providing financing to customers. However, because of the difficulty, in some cases, of allocating income or expenses between the operating and financing categories, the IASB concluded such an allocation is not required.

24. These respondents say this explanation could be interpreted as supporting the alternative view because it acknowledges the International Accounting Standards Board's (IASB) intention for the operating category to include income and expenses from specified liabilities if those liabilities relate to providing financing to customers. Furthermore, they say paragraph BC185 explains that paragraph 66 of IFRS 18 is

intended to prevent arbitrary allocation of income and expenses and provide relief to preparers if some specified liabilities cannot be distinguished. Therefore, in their view, applying paragraph 66 of IFRS 18 to specified liabilities that an entity has already successfully allocated to the financing category would be inconsistent with the intention described in paragraph BC185.

25. Some respondents that disagree with the Committee's observations also say that while paragraph 66 of IFRS 18 refers to 'all *such* liabilities', the related paragraph that applies to cash and cash equivalents (paragraph 57 of IFRS 18) refers to '*all* cash and cash equivalents' suggesting a different scope.

Staff analysis

26. We continue to agree with the Committee that its conclusion—as set out in the tentative agenda decision—is a reasonable reading of the requirement in paragraph 66 of IFRS 18 for reasons previously considered by the Committee. We note that respondents do not disagree with the Committee's view but say the alternative view is also a reasonable reading of the requirement.

27. Paragraphs 21–22 of Agenda Paper 4B from the Committee's June meeting (June agenda paper), which included our support for concluding that the Committee's view was the only acceptable reading of the requirements said:

> 21. …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 … 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.

28. We disagree with respondents' observation in paragraph 25 of this paper that the use of different wording in paragraph 57 and 66 of IFRS 18 suggests a different scope. Although paragraphs 57 and 66 of IFRS 18 use different wording—'all cash and cash equivalents' and 'all such liabilities', respectively—we are of the view that the IASB intended the accounting policy choice to be applied consistently to cash and cash equivalents and specified liabilities. In particular, paragraph BC140 of the Basis for Conclusions on IFRS 18 explains that the IASB decided to provide an accounting policy choice for cash and cash equivalents for 'similar reasons to those discussed in paragraphs BC180–BC185' for specified liabilities. Accordingly, 'all such liabilities' could reasonably be read as referring to all specified liabilities, rather than only those for which an entity cannot distinguish whether they relate to providing financing to customers.

29. However, we acknowledge the alternative view could also be a reasonable reading of the requirement in paragraph 66 of IFRS 18. In particular, we accept feedback that:

    (a) linguistically, 'such liabilities' could also refer to those for which an entity cannot distinguish whether they relate to providing financing to customers; and

    (b) paragraphs BC180–BC185 of the Basis for Conclusions on IFRS 18 could be read as supporting both the Committee's view and the alternative view.

Question 3

Feedback

30. Of the 11 respondents that commented on Question 3:

    (a) seven respondents—accounting firms and accountancy professional bodies and standard-setters—agree (or do not disagree) with the Committee's analysis and conclusions on this question; and

    (b) four respondents—accounting firms and a preparer—disagree that the Committee's conclusion is the only reasonable reading of the requirements.

31. Although no respondents disagree that the Committee's conclusion on this question (referred to as the Committee's view in this section) is a reasonable reading of the requirements, some respondents say that an alternative view which was included in the submission to the Committee (referred to as the alternative view in this section) would also be a reasonable reading of the requirements.

32. The alternative view said that if an entity 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 for the accounting policy choice to be consistent between paragraphs 56(b)(ii) and 65(a)(ii) of IFRS 18 does not apply.

33. Applying the alternative view, the entity would still be able to apply the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 when classifying income and expenses from specified liabilities that do not relate to providing financing to customers. The accounting policy choice applied does not need to be consistent with its classification in the operating category of income and expenses from cash and equivalents.

34. Deloitte, Forvis Mazars and Volkswagen Group say although paragraph 57 of IFRS 18 refers to 'the accounting policy choice' it provides no optionality, therefore the alternative view is also a reasonable reading of the requirement.

35. KPMG says it is unclear whether paragraph 57 of IFRS 18 applies to all cash and cash equivalents or only the portion of cash and cash equivalents which the entity cannot distinguish. They say in their view, if paragraph 57 applies to all cash and cash equivalents, then the Committee's view is the only reasonable reading of the requirements. However, if paragraph 57 applies to only the portion of cash and cash equivalents which the entity cannot distinguish, then, in their view, the accounting policy choice remains available for the portion of cash and cash equivalents that is distinguishable.

Staff analysis

36. We continue to agree with the conclusion in the tentative agenda decision that the Committee's view is the only reasonable reading of the requirements in paragraphs 56(b)(ii)–57 and 65(a)(ii) of IFRS 18.

37. We therefore disagree with respondents' reasons for supporting the alternative view as summarised in paragraph 34 of this paper. As paragraph 24 of the June agenda paper notes:

> …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]

38. The reference in paragraph 57 of IFRS 18 to 'apply[ing] the accounting policy choice in paragraph 56(b)(ii)' links the requirements in paragraphs 57 and 56(b)(ii) of IFRS 18, even if that 'choice' is restricted. Consequently, it also links the consistency requirement in paragraph 56(b)(ii) with that in paragraph 65(a)(ii) of IFRS 18.

39. We also disagree that it is unclear whether paragraph 57 of IFRS 18 applies to all cash and cash equivalents or to only the portion of cash and cash equivalents which the entity cannot distinguish whether they relate to providing financing to customers. Paragraph 57 of IFRS 18 states that, if cash and cash equivalents is not distinguishable, an entity classifies 'income and expense from *all* cash and cash equivalents in the operating category' [emphasis added].

40. Unlike the wording in paragraph 66 of IFRS 18—'all such liabilities'—which we acknowledge could reasonably be read in more than one way (see Question 2 of this paper), paragraph 57 of IFRS 18 refers to 'all cash and cash equivalents'. In our view, this wording is clear and does not support an alternative reading. Our view is also supported by the explanation in paragraph BC140 of IFRS 18 which states:

> … If an entity cannot distinguish between which income and expenses from cash and cash equivalents relate to providing financing to customers and which do not, an entity applies the accounting policy choice to classify in the operating category *all income and expenses* from cash and cash equivalents [emphasis added].

Need for standard-setting

41. 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

        (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 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.

42. The Committee's reasons for tentatively concluding that standard-setting is not needed to address the question submitted is set out in the June agenda paper. However, as paragraph 28 of this paper summarises, we acknowledge there are two reasonable readings of paragraph 66 of IFRS 18 (Question 2). Therefore, we reassess if it is necessary to add or change the requirements in paragraph 66 of IFRS 18 to improve financial reporting in relation to Question 2.

43. Although we acknowledge that more than one reasonable reading of the requirements is possible, any potential diversity in applying the requirements to the fact pattern described in the submission would be limited to one of two approaches (the Committee's view and the alternative view).

44. Paragraph BC184 of the Basis for Conclusions on IFRS 18 explains that the outcome of the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 'is that an entity always classifies in the operating category income and expenses from [specified liabilities that] relate to providing financing to customers'.

45. Neither of the two reasonable readings would deviate from that intended outcome and result in income and expenses from specified liabilities that relate to providing

financing to customers being classified outside of the operating category. In particular:

(a) applying the Committee's view, if an entity cannot distinguish all specified liabilities as required in paragraph 66 of IFRS 18, the entity classifies income and expenses from all specified liabilities in the operating category.

(b) applying the alternative view, an entity classifies in the financing category, only the income and expenses from specified liabilities it can distinguish as not relating to providing financing to customers, while income and expenses from all other specified liabilities it cannot distinguish are classified in the operating category.

46. We therefore think that investors would not be adversely affected by either outcome, or the resulting differences in outcome. The IASB already acknowledged in paragraph BC185 of the Basis for Conclusions on IFRS 18 that 'allowing an accounting policy choice might result in some loss of comparability between entities'—that is, some reduced comparability is already expected.

47. We are therefore of the view that the expected benefits of a standard-setting project that would aim to clarify the scope of paragraph 66 of IFRS 18 would not outweigh the costs. Undertaking standard-setting at this stage would unduly disrupt entities' efforts as they prepare to apply IFRS 18 by the effective date of 1 January 2027, while there seems to be only insignificant incremental benefits to be achieved for users of financial statements. As a result, we think that narrow-scope standard-setting could not be completed efficiently or cost-effectively.

48. Based on our analysis, we are therefore of the view that changes to the requirements are not needed to improve financial reporting.

Concerns about the potential outcomes

49. Respondents—some for Questions 1 and Question 3 and most for Question 2—express concern about the potential outcome of applying the requirements as explained in the tentative agenda decision. Appendix C summarises those concerns.

50. The IASB considers the effects of requirements when it develops those requirements—and it is not the Committee's role to reconsider the effects or outcomes of those requirements. We note nonetheless that in the light of our analysis of feedback on Question 2 and our conclusion that two readings are acceptable, most of the concerns about the potential outcomes on Question 2 are no longer relevant.

Other comments

51. Forvis Mazars says the term 'specified liability' used in the agenda decision to refer to liabilities that arise from transactions that involve only the raising of finance may create confusion when considered alongside the phrase 'specified main business activity' which is used in IFRS 18. We suggest no change to the agenda decision in response to this concern. In our view, the use of 'specified liabilities' in the agenda decision is unlikely to cause confusion. We also note no other respondent raised this concern.

52. In addition to this paper, Appendix B of Agenda Paper 9 for this meeting summarises and analyses comments from CPA Australia that apply to all the tentative agenda decisions on IFRS 18 that the Committee decided to publish at its June 2026 meeting. As stated in that paper, we recommend no further action in response to those comments.

Staff recommendations and questions for the Committee

53. For Questions 1 and 3, we continue to think the Committee's application of the requirements in IFRS 18 to the fact pattern in the submission, and its related

observations in the tentative agenda decision, remain appropriate and standard-setting is not needed to address those questions.

54. For Question 2, in the light of the feedback and our analysis, we think both the Committee's view and the alternative view as set out in paragraph 20 of this paper are reasonable readings of the requirement in paragraph 66 of IFRS 18. However, we think the expected benefits of a standard-setting project to clarify the scope of paragraph 66 of IFRS 18 would not outweigh the costs. Consequently, we recommend no standard-setting to address this question.

55. Based on our analysis, we recommend finalising the agenda decision, with the following changes to the tentative agenda decision:

(a) to add a reference to paragraph B37 of IFRS 18 which explains that an entity assesses whether it has a specified main business activity for the reporting entity as a whole (see paragraph 16(a));

(b) to explain why there are two reasonable readings of paragraph 66 of IFRS 18 (see paragraph 29);

(c) to explain that in the light of the two reasonable readings of paragraph 66 of IFRS 18, in accordance with paragraph 13 of IAS 8 *Basis of Preparation of Financial Statements*, an entity applies its reading of the requirement in paragraph 66 of IFRS 18 consistently when classifying specified liabilities[3];

(d) to explain, similar to paragraph 47 of this paper, why for Question 2 the Committee decided that a standard-setting project is not needed to address the question; and

(e) to make other minor editorial changes.

56. Appendix A to this paper sets out the suggested wording for the agenda decision.

[3] The proposed addition is consistent with the wording in the Agenda Decision *Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset)* (IFRS 18 *Presentation and Disclosure in Financial Statements*), published in April 2026.

57. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee
1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraphs 53–55 of this paper? 2. Do Committee members have any comments on the wording of the agenda decision in Appendix A to this paper? 3. Do Committee members have additional observations they would like to report to the IASB regarding this matter?

Appendix A—Suggested wording of the agenda decision

This appendix sets out the suggested wording of the agenda decision. Paragraph numbers are included to facilitate referencing but will be removed when the agenda decision is published in IFRIC *Update*. New text is underlined and deleted text is struck through.

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*)

A1. The Committee received a request about how an entity that has a main business activity of providing financing to customers classifies income and expenses from liabilities that arise from transactions that involve only the raising of finance (referred to hereafter as specified liabilities) in its consolidated statement of profit or loss in accordance with paragraphs 65(a) and 66 of IFRS 18.

A2. 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 specified liabilities even if the entity can distinguish some, but not all, specified liabilities that relate to providing financing to customers from those that do not (Question 2); and

(c) whether, applying paragraph 57 of IFRS 18, an entity that classifies income and expenses from cash and cash equivalents in the operating category because it cannot distinguish cash and cash equivalents that relate to providing financing to customers from those that do not, is required to apply the same classification to income and expenses from specified liabilities, even if it can distinguish those that relate to providing financing to customers from those that do not (Question 3).

Applicable requirements

A3. Paragraphs 56(b)–57, 65(a) and 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) specified liabilities.

Applying the requirements in IFRS 18

Question 1

A4. Paragraph 65 of IFRS 18 applies to an entity that provides financing to customers as a main business activity~~, assessed for the reporting entity as a whole~~. 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.

A5. The Committee observed that when a reporting entity that is 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 as a whole. Consequently, the accounting policy choice in paragraph 65(a)(ii) applies to all the specified liabilities of the consolidated group that do not relate to providing financing to customers, and not only those specified liabilities of the subsidiaries in the consolidated group that have a main business activity of providing financing to customers.

Question 2

A6. Paragraph 65(a) of IFRS 18 requires an entity that provides financing to customers as a main business activity to distinguish between specified liabilities that relate to providing financing to customers and those that do not. If an entity cannot make such a distinction, paragraph 66 of IFRS 18 requires the entity to classify income and expenses from 'all such liabilities' in the operating category of the statement of profit or loss, applying the accounting policy choice in paragraph 65(a)(ii) of IFRS 18.

A7. Figures 3.2–3.3 of the Illustrative Examples on IFRS 18 illustrate the requirements set out in paragraphs 55–57 and 65–66 of IFRS 18.

A8. The Committee concluded that there are two reasonable readings of paragraph 66 of IFRS 18. An entity could reasonably conclude that this requirement applies to:

(a) all specified liabilities—that is, the reference to 'all such liabilities' in paragraph 66 refers to all of the specified liabilities of the consolidated group in the fact pattern. Consequently, the entity classifies the income and expenses from all specified liabilities in the operating category of the statement of profit or loss.

(b) only the portion of specified liabilities for which an entity cannot distinguish between those that relate to providing financing to customers and those that do not. Consequently, the accounting policy choice in paragraph 65(a)(ii) remains available to the portion of specified liabilities for which an entity can make such distinction.

A9. The Committee observed that in accordance with paragraph 13 of IAS 8 *Basis of Preparation of Financial Statements*, an entity would apply its reading of the requirement consistently to the classification of specified liabilities.

~~A10. Paragraph BC183 of the Basis for Conclusions on IFRS 18 explains the outcome of the IASB's decision to allow an entity that provides financing to customers as a main business activity to make an accounting policy choice for classifying income and expenses from specified liabilities. That explanation notes that if an entity does not classify in the operating category only income and expenses from specified liabilities that relate to providing financing to customers, then the entity classifies in the operating category income and expenses from all specified liabilities. Figures 3.2–3.3 of the Illustrative Examples on IFRS 18 illustrate the requirements set out in paragraphs 55–57 and 65–66 of IFRS 18.~~

~~A11. The Committee observed that if an entity cannot distinguish the specified liabilities that relate to providing financing to customers from those that do not, the entity is required to classify the income and expenses from all specified liabilities in the operating category of the statement of profit or loss. That is, the reference to 'all such liabilities' in paragraph 66 of IFRS 18 refers to all of the specified liabilities of the consolidated group in the fact pattern.~~

Question 3

A12. Paragraphs 56(b)(ii) and 65(a)(ii) of IFRS 18 require an entity's choice of accounting policy for classifying income and expenses from cash and cash equivalents and specified liabilities to be consistent with each other.

A13. Paragraph 57 of IFRS 18 requires an entity applying paragraph 56(b) to classify income and expenses from cash and cash equivalents in the operating category if it cannot distinguish between cash and cash equivalents that relate to providing financing to customers and those that do not.

A14. The Committee observed that, if, as required by paragraph 57, an entity classifies income and expenses from all 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 those that do not, the entity is required to apply the same classification to income and expenses from specified liabilities. The entity is required to do so regardless of whether it can distinguish between the specified liabilities that relate to providing financing to customers and those that do not.

Conclusion

A15. For Questions 1 and 3, t~~T~~he Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for the entity described in the fact pattern to determine how to classify income and expenses from specified liabilities in its statement of profit or loss. ~~Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.~~

A16. For Question 2, in the light of its analysis, the Committee considered whether a standard-setting project is needed to address the question. The Committee was of the view that the expected benefits of a standard-setting project to clarify the scope of paragraph 66 of IFRS 18 would not outweigh the costs.

A17. Consequently, the Committee decided that a standard-setting project is not needed to address the request.

Appendix B—Excerpts from IFRS 18

B1. This appendix reproduces relevant excerpts from IFRS 18.

B2. Paragraphs 56–57 of IFRS 18 state:

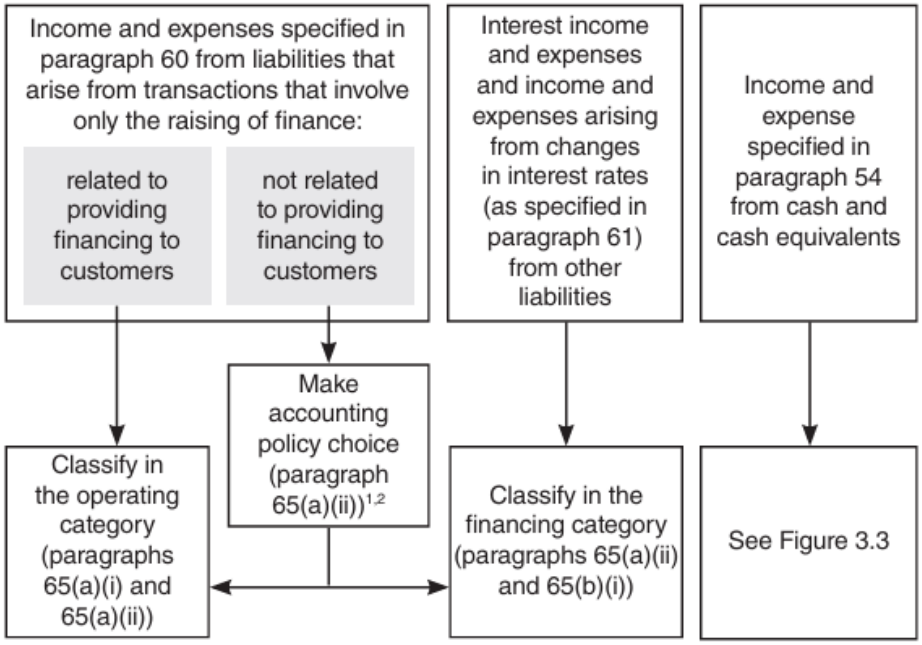
> 56. For the assets specified in paragraph 53(b) (that is, cash and cash equivalents), an entity shall classify the income and expenses specified in paragraph 54 in the investing category unless:
>
> (a) it invests as a main business activity in financial assets within the scope of paragraph 53(c)—in 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.

B3. 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.

B4. Figures 3.2–3.3 of the Illustrative Examples on IFRS 18 illustrate the application of the requirements set out in paragraphs 55–57 and 65–66 of IFRS 18:

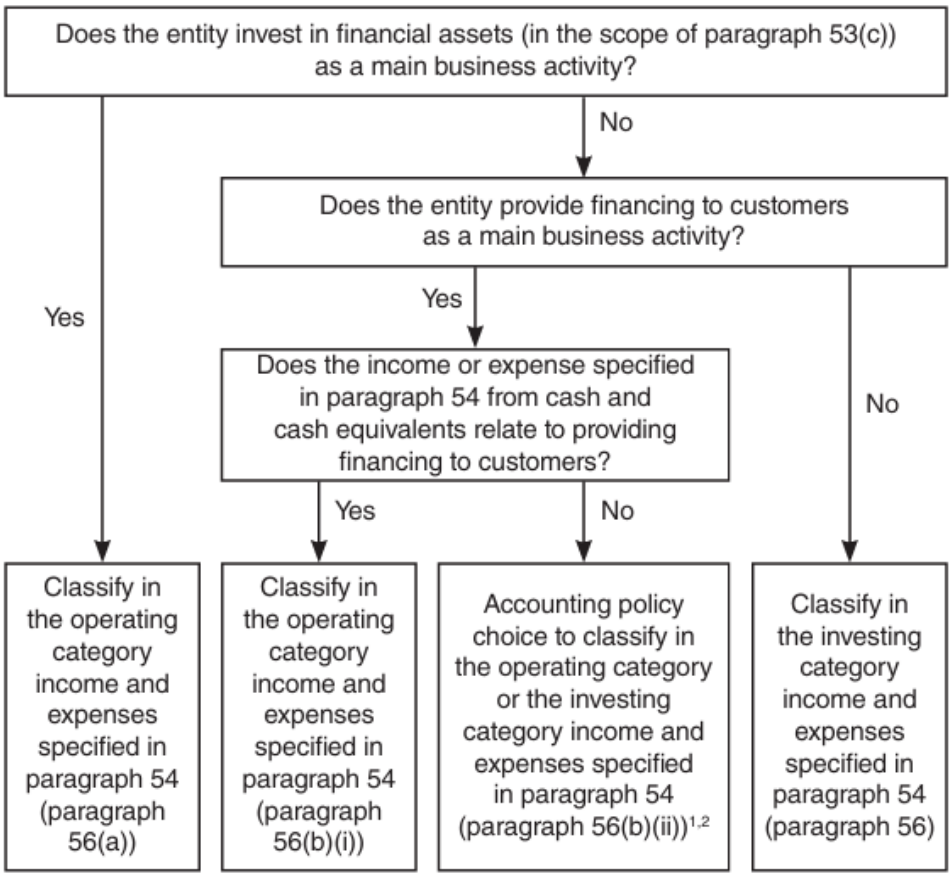
Figure 3.2—Classification of specific income and expenses by entities that provide financing to customers as a main business activity



[1] The choice of accounting policy shall be consistent (where applicable) with that made for the classification of income and expenses from cash and cash equivalents (paragraph 65(a)(ii)) (see Figure 3.3).

[2] If an entity cannot distinguish which of the liabilities that arise from transactions that involve only the raising of finance relate to providing financing to customers, it shall apply the accounting policy choice to classify income and expenses from all such liabilities in the operating category (paragraph 66).

Figure 3.3—Classification of income and expenses from cash and cash equivalents by entities with specified main business activities



[1] The choice of accounting policy shall be consistent (where applicable) with that made for the classification of income and expenses from liabilities that arise from transactions that involve only the raising of finance that do not relate to providing financing to customers (paragraph 56(b)(ii)) (see Figure 3.2).

[2] If an entity cannot distinguish which cash and cash equivalents relate to providing financing to customers, it shall apply the accounting policy choice to classify income and expenses from all cash and cash equivalents in the operating category (paragraph 57).

Appendix C—Concerns about potential outcomes

C1. This appendix summarises respondents' concerns about the potential outcomes of applying the requirements as explained in the tentative agenda decision.

Question 1

C2. Some respondents—the Accounting Standards Board of Japan (ASBJ), BNP Paribas, Forvis Mazars, Saudi Organization for Chartered and Professional Accountants (SOCPA) and Volkswagen Group—express concern about the potential outcome of applying the tentative agenda decision.

C3. The ASBJ, Forvis Mazars and SOCPA say the Committee's conclusion could result in some conglomerates classifying all income and expenses of the consolidated group from specified liabilities in the operating category regardless of whether those income and expenses arise from subsidiaries that provide financing to customers as a main business activity. Forvis Mazars says this outcome is counter-intuitive to the objective of IFRS 18 which generally seeks to provide a meaningful presentation of the performance of entities with multiple business activities.

C4. Volkswagen Group says to help users distinguish between the refinancing costs of its different businesses, the accounting policy choice in paragraph 65(a)(ii) of IFRS 18 should be applied to each subsidiary instead of to the consolidated group as a whole. This would enable a subsidiary that has a main business activity of providing financing to customers to classify income and expenses from all its specified liabilities in the operating category, without having to distinguish between specified liabilities that relate to providing financing to customers and those that do not.

C5. The respondents that express concern say an outcome in which paragraph 65(a)(ii) would apply to only those specified liabilities of the subsidiaries in the consolidated group that have a main business activity of providing financing to customers (the view rejected by the Committee) would provide more useful and relevant information. Volkswagen Group and BNP Paribas provide examples of why applying this view would also make it easier for entities to distinguish between refinancing costs of different parts of the business.

Question 2

C6. Most respondents express concern about the potential outcome of applying the tentative agenda decision. These respondents say that applying the Committee's view would require an entity to classify in the operating category, all income and expenses from specified liabilities even if only an insignificant portion of specified liabilities cannot be distinguished between those that relate to providing financing to customers and those that do not. They say this approach would lead to a 'tainting effect' which would reduce:

(a) usefulness of information, particularly when an entity can make such distinction for most of its specified liabilities; and

(b) comparability between economically similar entities with different treasury structures, funding arrangements, or information granularity.

C7. These respondents say that the Committee's view would particularly affect diversified groups and conglomerates such as automotive manufacturers that have both an automotive business and a financial services business.

C8. Some accounting firms and accountancy professional bodies suggest that, if the Committee regards its interpretation as the only acceptable reading of the requirement in paragraph 66 of IFRS 18, the matter should be referred to the IASB for standard-setting.

Question 3

C9. Some respondents (across all stakeholder groups), including some that agree and some that do not agree, express concern about the potential outcome of applying the tentative agenda decision for similar reasons for those given for Question 2 (see paragraph C6 of this appendix). That is, an entity is required to classify in the operating category, all income and expenses from specified liabilities even if only an insignificant portion of cash and cash equivalents cannot be distinguished between those that relate to providing financing to customers and those that do not.