

Assessment of a Specified Main Business Activity for the Purposes of the Separate Financial Statements of a Parent (IFRS 18 *Presentation and Disclosure in Financial Statements*)

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The Committee received a request about how a parent applying IFRS 18 assesses, for the purposes of its separate financial statements, whether it has a specified main business activity—in the fact pattern described in the request, a main business activity of investing in unconsolidated subsidiaries.

Fact pattern

In the fact pattern described in the request, the reporting entity is the ultimate parent of a large group of entities. Its only activities are holding investments in subsidiaries, making decisions on the management, acquisition and disposal of those subsidiaries and distributing returns on those investments to shareholders. The parent determines that it is not an investment entity as defined in IFRS 10 *Consolidated Financial Statements*.

In its separate financial statements, the parent accounts for its investments in subsidiaries (hereafter referred to as investments in unconsolidated subsidiaries) at cost in accordance with paragraph 10(a) of IAS 27 *Separate Financial Statements*. The parent does not provide to its shareholders any segmental analysis or use any subtotals to explain its operating performance related to its separate financial statements. The parent also does not use such metrics for internal monitoring purposes. Shareholders are provided segmental analysis and subtotals as indicators of the consolidated group's operating performance. For the purposes of the group's consolidated financial statements, no specified main business activity is identified.

The request asked whether the parent, for the purposes of its separate financial statements, has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. In accordance with IFRS 18, the parent would classify income and expenses from those investments in subsidiaries (which are accounted for at cost) in its statement of profit or loss:

- a. in the operating category if it concludes that it has a main business activity of investing in unconsolidated subsidiaries; and
- b. in the investing category if it concludes that it does not have a main business activity of investing in unconsolidated subsidiaries.

Applicable requirements

Paragraph 52 of IFRS 18 requires an entity to classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in any of the other four categories—that is, the investing, financing, income taxes and discontinued operations categories. Paragraph B42 of IFRS 18 explains that the requirements in the Standard result in an entity classifying income and expenses from its main business activities in the operating category, except for income and expenses from investments accounted for using the equity method. Paragraph B30 of IFRS 18 explains that an entity may have more than one main business activity.

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. In accordance with paragraphs 49(a) and 53(a) of IFRS 18, one specified main business activity is investing in particular types of assets including investments in unconsolidated subsidiaries. As paragraph B44(c) of IFRS 18 notes, investments in unconsolidated subsidiaries include investments in subsidiaries in separate financial statements that are accounted for at cost applying paragraph 10(a) of IAS 27.

Paragraph 53(a) of IFRS 18 requires an entity to classify income and expenses from investments in unconsolidated subsidiaries in the investing category unless the entity invests in that type of asset as a specified main business activity. If an entity invests in unconsolidated subsidiaries as a specified main business activity, paragraph 55 of IFRS 18 requires the entity to classify income and expenses from those subsidiaries in the operating category (unless those investments are accounted for applying the equity method).

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 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 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 or whether, applying IFRS 8 *Operating Segments*, the entity has a reportable segment that comprises a single business activity.

Paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets 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 the consolidated group could have different outcomes. Paragraph BC99 of the Basis for Conclusions on IFRS 18 explains the IASB's rationale for the related requirements and notes that a parent entity's conclusion as to whether an activity is a main business activity for the purposes of its separate financial statements might differ from its conclusion for the purposes of the group's consolidated financial statements.

Applying the requirements in IFRS 18 to the fact pattern

In accordance with paragraph 55 of IFRS 18, an entity can have a main business activity of investing in unconsolidated subsidiaries. The Committee observed that assessing whether a parent has a main business activity of investing in unconsolidated subsidiaries for the purposes of its separate financial statements requires judgement—in particular, when the parent has more than one business activity—and depends on the parent's specific facts and circumstances.

In the fact pattern described in the request, the parent has a substantive business activity of holding and managing investments in subsidiaries and distributing returns from those investments. The Committee observed that, in those circumstances, an outcome in which the parent described in the request has no main business activity would be inconsistent with the IASB's rationale underlying the requirements of the Standard—in particular:

- a. all income and expenses included in profit or loss—other than those related to investing, financing, income taxes and discontinued operations—arise from an entity's operations; and
- b. an entity's operations include—but are not limited to—one or more main business activities, including income and expenses from investing in assets if that activity is a main business activity of the entity.

The Committee observed that, for the parent described in the request, the absence of any other substantive activity is sufficient evidence to conclude that investing in unconsolidated subsidiaries is a main business activity for the purposes of the parent's separate financial statements.

Therefore, the Committee concluded that the parent, for the purposes of its separate financial statements, has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. The parent accounts for its investments in unconsolidated subsidiaries at cost. Consequently, in accordance with paragraph 55(b) of IFRS 18, the parent classifies the income and expenses from its investments in unconsolidated subsidiaries in the operating category of its statement of profit or loss.

The Committee also observed that:

- a. the parent described in the request does not provide to its shareholders any segmental analysis or use any subtotals to explain its operating performance related to its separate financial statements; therefore, the examples provided in paragraphs B34–B36 of IFRS 18 of the types of factors an entity considers in assessing whether it has a specified main business activity do not apply in the fact pattern described in the request. The absence of those factors is not determinative and does not indicate that the parent's only substantive business activity is not its main business activity.
- b. the absence of a parent from the examples provided in paragraph B31 of IFRS 18 is not determinative; those examples are not an exhaustive list.
- c. consistent with the IASB's rationale in developing the requirements (as set out in paragraphs BC98–BC99 of the Basis for Conclusions on IFRS 18), the assessment of a main business activity is made for the reporting entity as a whole and, therefore, the outcome of that assessment for the purposes of the separate financial statements of a parent can differ from the outcome of the assessment for the purposes of the consolidated financial statements of the parent and its subsidiaries as a single economic entity.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for the parent described in the request to assess, for the purposes of its separate financial statements, whether it has a specified main business activity—specifically, a main business activity of investing in unconsolidated subsidiaries. Consequently, the Committee decided not to add a standard-setting project to the work plan.

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