STAFF PAPER

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Project	**Primary Financial Statements**	
Paper topic	Entities with specified main business activities—Issues specific to the investing category	
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Objective of this paper

1. This paper sets out the staff analysis and recommendations relating to some of the proposals in the Exposure Draft *General Presentation and Disclosures* for entities with specified main business activities[1] that are specific to the investing category. It should be read in conjunction with Agenda paper 21B of this meeting which discusses the proposals for entities with specified main business activities specific to the financing category.

2. This paper is the third in a series of papers[2] on entities with specified main business activities. It discusses the feedback on the proposals specific to the investing category for entities with specified main business activities excluding:

[1] Entities that invest in the course of main business activities in assets that generate a return individually and largely independently of the other resources held by the entity (referred to as 'entities that invest in the course of main business activities') or provide financing to customers as a main business activity.

[2] The first paper in the series considered the feedback on the key concept of 'main business activities' that is related to both the investing category and the financing category (see Agenda Paper 21A of the March 2022 IASB Meeting). The second paper is an educational paper that discusses the proposal for entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method outside of the operating category (see Agenda paper 21D of the May 2022 IASB meeting).

(a) the proposals related to classification of income and expenses from associates and joint ventures; and

(b) the consequences of the change in category for classifying income and expenses from cash and cash equivalents which are discussed in Agenda Paper 21B of this meeting.

3. In future papers, we plan to discuss:

(a) the classification of income and expenses from associates and joint ventures that are held by entities with specified main business activities;

(b) whether a general principle or further guidance is needed to clarify the classification of income and expenses arising from transactions which result in a change in the category in which income and expenses from assets are classified (for example, where to classify gains and losses that arise when an investment in an equity instrument becomes a subsidiary);

(c) application of the proposals in separate financial statements;

(d) disclosure of significant judgements made in applying presentation and disclosure requirements; and

(e) subtotals specified by IFRS Accounting Standards, including subtotals similar to gross profit, that are not management performance measures.

Summary of staff recommendations

4. The staff recommend the International Accounting Standards Board (IASB):

(a) amend the proposal in the Exposure Draft to require an entity to classify income and expenses from investments that generate a return individually and largely independently of other resources held by an entity in the operating category when the entity invests in those investments as a main business activity;

(b) add application guidance permitting an entity to perform the assessment of whether investments are made as a main business activity for a group of assets with shared characteristics. Groups of financial assets with shared characteristics used in this assessment should be consistent with the way an entity groups financial assets into classes for the purposes of disclosures about financial instruments in accordance with IFRS 7 *Financial Instruments: Disclosures*; and

(c) add application guidance clarifying that income and expenses from financial assets recognised from providing financing to customers are classified in the operating category.

Structure of the paper

5. This paper is structured as follows:

(a) background (paragraphs 6–20);

(i) proposals in the Exposure Draft (paragraphs 6–8);

(ii) feedback on the proposals in the Exposure Draft (paragraphs 9–16);

(iii) summary of related tentative IASB decisions from its redeliberations to date (paragraphs 17–20);

(b) staff analysis, staff recommendations and questions for the IASB (paragraphs 21–55):

(i) whether the IASB should revise the expression ‘in the course of main business activities’ (paragraphs 22–41); and

(ii) whether the IASB should permit an entity to aggregate investments with similar characteristics for assessing main business activities (paragraphs 42–55).

(c) Appendix A—Extracts from the Exposure Draft.

(d) Appendix B—Extracts from IFRS Accounting Standards.

Background

Proposals in the Exposure Draft

6. This section explains the proposals that were included in the Exposure Draft. A summary of the IASB's redeliberations and the resulting tentative decisions which amend the proposals in the Exposure Draft are included in paragraphs 17–20 of this paper.

7. The Exposure Draft proposed that the operating category would include income and expenses from an asset that generates a return individually and largely independently of the other resources held by an entity when the investment is made in the course of the entity's main business activities (referred to as 'investments in the course of main business activities') (paragraph 48 of the Exposure Draft). An entity would assess on an asset-by-asset basis whether an investment is made in the course of a main business activity (BC61 of the Basis for Conclusions on the Exposure Draft).

8. Paragraph B27 of the Exposure Draft explains that:

   (a) whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement;

   (b) in general, investments are likely to have been made in the course of an entity's main business activity when investment returns are an important indicator of operating performance; and

   (c) examples of entities that invest in the course of their main business activities include:

      (i) investment entities as defined in IFRS 10 *Consolidated Financial Statements*;

      (ii) investment property companies; and

      (iii) insurers.

Feedback on the proposals in the Exposure Draft

Comment letter feedback

9. Most respondents, including many users, agreed with requiring an entity to classify in the operating category income and expenses from investments made in the course of the entity's main business activities. However, some respondents were concerned different entities may inconsistently identify 'investments made in the course of an entity's main business activities'. A few users said that entities may classify profitable investments in the operating category and loss-making investments in the investing category.

10. Some respondents said it was unclear whether 'strategic investments' are 'investments made in the course of an entity's main business activities'. They said strategic investments include non-controlling shareholdings (that is, shareholdings that do not give the entity control, joint control or significant influence) in suppliers or customers, including cross-shareholdings, which are held to strengthen business relationships.

11. In addition, a few respondents said it was unclear:

    (a) what 'in the course of main business activities' means and how it differs from 'as a main business activity'. Some requested additional guidance and examples. A few respondents said 'in the course of main business activities' would be difficult to translate into their local language.

    (b) whether 'in the course of main business activities' includes 'ancillary activities'. For example, one standard-setter asked how an automotive manufacturer should classify rental income from leased dealerships that are accounted for as investment property.

    (c) whether investments held to satisfy regulatory requirements would qualify as investments made in the course of an entity's main business activities—for example, investments held by insurers to meet minimum capital requirements.

12. As mentioned in Agenda Paper 21D of the May 2022 IASB meeting, a few respondents, including an accounting network, said that they think it is counterintuitive that income and expenses from investments in associates and joint ventures accounted for using the equity method will never qualify for classification in

the operating category, but income and expenses from investments in equity instruments over which an entity does not have joint control or significant influence are required to be classified in the operating category when the investments are in the course of main business activities.

13. A few preparers said splitting investments between those that are made in the course of main business activities and those that are not would be costly and that the cost would exceed the benefits.

Feedback from fieldwork participants

14. Most participants were able to identify and classify in the operating category income and expenses from investments made in the course of the participants' main business activities. However, some participants said that significant judgements were required in determining whether investments were made in the course of an entity's main business activities.

15. Participants that said significant judgement was required in determining whether investments were made in the course of a main business activity often made investments in customers or suppliers. For example, many banks that provided loans to customers also invested in the equity shares of some of their customers and therefore judged that the customer relationship meant that the investment was made in the course of the main business activity.

16. Similarly, one participant with manufacturing as a main business activity had an equity investment in an entity with which it had both supplier and customer relationships. This manufacturer said that it was difficult to judge whether these relationships meant that the investment was made in the course of its main business activity.

Summary of related IASB tentative decisions from redeliberations to date

17. In May 2021(see Agenda Paper 21B), the IASB tentatively decided to:

    (a) confirm the proposal to introduce separate investing and financing categories in the statement of profit or loss;

(b) confirm the proposal to define the 'profit or loss before financing and income tax' subtotal and require it to be presented in the statement of profit or loss; and

(c) require an entity to classify income and expenses from cash and cash equivalents in the investing category rather than the financing category.

18. In July 2021 (see Agenda Paper 21B), the IASB tentatively decided to:

(a) change the 'default category' for the classification of fair value gains and losses on derivatives and hedging instruments used for risk management from the investing category to the operating category; and

(b) change the classification of fair value gains or losses on derivatives not used for risk management from the investing category to the operating category.

19. In December 2021(see Agenda Paper 21B), the IASB tentatively decided to:

(a) confirm the proposal for entities to classify income and expenses from assets that generate returns individually and largely independently of other resources held by the entity in the investing category;

(b) confirm the proposed application guidance in the Exposure Draft and add further application guidance clarifying that the following are not classified in the investing category:

(i) income and expenses arising from individual assets and disposal groups classified as held for sale; and

(ii) income and expenses arising from business combinations;

(c) to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category;

(d) to remove the discussion of the objective from the requirements in the Accounting Standard and explain in the Basis for Conclusions the reasons for including specific items in the investing category, without referring to that explanation as being an 'objective';

(e) confirm the label 'investing category'; and

(f) not to proceed with the proposed use of the defined term 'income and expenses from investments'.

20. In March 2022 (see Agenda Paper 21A), the IASB tentatively decided to clarify that:

(a) the role of main business activities in the requirements of the Accounting Standard is limited to assessing whether an entity invests in the course of its main business activities or provides financing to customers as a main business activity. The assessment is performed at the reporting-entity level. Any changes in the outcome of the assessment should be applied prospectively with disclosure of the fact that there has been a change and information about the effect of the change that would allow users to perform trend analysis on operating profit.

(b) investing in the course of main business activities or providing financing to customers as a main business activity is a matter of fact and not an assertion. An entity will need to use its judgement in assessing whether it invests in the course of its main business activities or provides financing to customers as a main business activity. The assessment should be based on observable evidence to the extent available.

(c) examples of observable evidence are:

(i) operating performance measures used in public communications; and

(ii) information about segments, if an entity applies IFRS 8 *Operating Segments*. Specifically:

1. a reportable segment that comprises a single business activity indicates that the business activity is a main business activity of the entity.
2. an operating segment that comprises a single business activity indicates the business activity could be a main business activity of the entity—if the performance of the operating segment is an important indicator of the operating performance of the entity.

(d) the subtotals similar to gross profit[3] in paragraph B78 of the Exposure Draft are examples of important indicators of operating performance for an entity that invests in the course of its main business activities or provides financing to customers as a main business activity.

Staff analysis, staff recommendations and questions for the IASB

21. In this paper we analyse:

    (a) whether the IASB should revise the expression 'in the course of main business activities' (paragraphs 22–41); and

    (b) whether the IASB should permit an entity to aggregate investments with similar characteristics for assessing main business activities (paragraphs 42–55).

Expression 'in the course of main business activities'

22. Some respondents and fieldwork participants said that it is difficult to determine whether some investments are made in the course of main business activities. Some of these respondents asked for clarity on 'in the course of main business activities' and requested additional guidance and examples (see paragraphs 10, 11, 14–16).

23. In this section of the paper we analyse:

    (a) whether to revise the expression 'in the course of main business activities' (paragraphs 24–31); and

    (b) other stakeholder concerns about identifying investments as a main business activity (paragraphs 32–41).

[3] A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue.

Revising 'in the course of main business activities' to 'as a main business activity'

24. The staff think that the IASB should revise the proposals in the Exposure Draft to require an entity to classify income and expenses from investments that generate a return individually and largely and independently of other resources held by the entity in the operating category when the entity invests in those investments as a main business activity. This would replace the expression in the Exposure Draft 'in the course of main business activities'.

25. The staff think this change would simplify the proposal by making the judgement about whether investing activities are main business activities clearer. Replacing 'in the course of its main business activities' with 'as a main business activity' removes the link between investing and other main business activities that are not investing—the judgement becomes only whether investing is a main business activity in and of itself not whether it supports another activity that is a main business activity. For example, the fact that an investment is made in a customer of an entity's main business activity would be more clearly excluded as a factor to consider in determining if the investment is made as a main business activity.

26. The staff think that this would resolve stakeholder questions over the application of 'in the course of' (see paragraph 11) and result in more consistent outcomes in determining when investing is a main business activity (see paragraph 12). It would also align the requirements for investing as a main business activity with the requirements for the provision of financing to customers as a main business activity (see paragraph 11).

27. The staff think that replacing 'in the course of main business activities' with 'as a main business activity' will add further clarity when combined with the application of the IASB's tentative decision in March 2022 to clarify the role of main business activities and that the assessment should be based on observable evidence. In particular, the examples of observable evidence (see paragraph 20(c)) more clearly relate to investing when it is a main business activity of the entity than an activity undertaken 'in the course of' its main business activity. This should make it easier to identify the instances in which investing is a main business activity.

28. However, the staff acknowledge that drawing a clearer line between investing and other main business activities may result in different outcomes than stakeholders may have expected based on an assessment using 'in the course of' which was included in the Exposure Draft. In the following section the staff have analysed the expected impact of this change combined with the March 2022 tentative decisions using the examples of investments that stakeholders said were unclear (see paragraphs 10, 11 and 15–16).

29. The staff also think that the examples of observable evidence (see paragraph 20(c)) indicating that investing is a main business activity and the clarification that the subtotals similar to gross profit in paragraph B78 of the Exposure Draft are important indicators of operating performance of an entity that invests as a main business activity (see paragraph 20(d)) should retain the outcome for those entities that 'in the course of' was introduced to capture, such as insurers.

30. Paragraph BC60 of the Basis for Conclusions on the Exposure Draft explains that for some entities investing in assets that generate a return individually and largely independently of other resources held by an entity is an important activity performed in the course of their main business activities although it may not be their main business activity. For example, an insurer's main business activity may be underwriting and in order to perform its underwriting activities it invests in assets that generate a return individually and largely independently of other resources held by an entity. 'In the course of main business activities' would also capture entities for whom such activities are their main business activity, for example, investment entities.

31. Applying the clarifications tentatively decided at the March 2022 IASB meeting, when returns on investments constitute a subtotal similar to gross profit, such as net financial result (investment income minus insurance finance expense), investing is a main business activity of the entity and the income and expenses from those investments are classified in the operating category (see paragraph 20(d)). Hence, specifying that the investments are made 'in the course of main business activities' would no longer be necessary for investments to be classified in operating profit.

Specific stakeholder concerns about identifying investing as a main business activity

32. The staff have considered how each of the following investments might be evaluated to determine whether it is a main business activity applying the clarifications from the March 2022 IASB meeting:
    (a) investments in assets that are held to meet regulatory requirements in paragraph 11(c) (see paragraph 33);
    (b) investments from ancillary activities in paragraph 11(b) (paragraphs 34–35); and
    (c) strategic investments in customers and suppliers in paragraphs 10 and15–16 (see paragraphs 36–38).

33. Applying the proposals in the Exposure Draft with the additional clarifications from the March 2022 IASB meeting to the example of income and expenses on investments in assets held to satisfy regulatory requirements (paragraph 11(c)), the entity would assess whether the return from the investments is an important indicator of operating performance of the entity. If income and expenses from investments in assets held to satisfy regulatory requirements are included in a subtotal similar to gross profit, such as net financial result or net interest income (see paragraph B78 of the Exposure Draft) then they would be classified in the operating category.

34. The Exposure Draft did not propose to include a concept of 'ancillary activities' because income and expenses from all business activities are classified in the operating category unless they meet the requirements to be classified in the investing, financing, income taxes and discontinued operations categories (see paragraph 46 of the Exposure Draft). Removing 'in the course of' would remove any implied link between such services and another activity. Hence, 'ancillary activities' would be classified based whether they met the definition of operating, investing, or financing without reference to other activities.

35. Applying the proposals in the Exposure Draft with the additional clarifications from the March 2022 IASB meeting to the example of an investment property given by the respondent (see paragraph 11(b)), the entity would assess whether the return from the investment property—net rental income (see paragraph B78(e) of the Exposure

Draft)—is an important indicator of operating performance of the entity. If net rental income is an important indicator of operating performance, the entity would classify the income and expenses from the investment property in the operating category.

36. 'Strategic investment', such as an investment in a customer or supplier, (paragraphs 10 and 15–16) is not a defined term within IFRS Accounting Standards. The staff note that such investments are generally investments in equity instruments measured either at:

    (a) fair value through profit or loss; or

    (b) fair value through other comprehensive income if the entity applies the election[4] in paragraph 5.7.5 in IFRS 9 *Financial Instruments* (see paragraph 4.1.4 of IFRS 9).

37. The staff think that strategic investments should be assessed in the same way as all other investments in equity instruments. When returns from investments in equity instruments are included in a subtotal similar to gross profit, such as net income from investments in equity instruments or net financial result (see paragraph B78(d) of the Exposure Draft), that is an important indicator of operating performance of the entity, the investments in the equity instruments would be investments in the course of main business activities.

38. The staff also think the additional guidance also helps to address the concerns raised by stakeholders in paragraph 9 that entities may classify profitable investments in the operating category and loss-making investments in the investing category, though it does not resolve it completely. Stating that whether an activity is main business activity is a fact that should be based on observable evidence when available should impose some discipline on the investments that are included or excluded. However, judgement is required and observable evidence may not be available.

39. Based on the analysis in paragraphs 33–38 the staff think that the replacement of 'in the course of main business activities' with 'as a main business activity' and the

[4] This election is an irrevocable election made on an instrument-by-instrument basis on initial recognition. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends received are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment (see paragraph B5.7.1 of IFRS 9).

clarifications from the March 2022 IASB meeting (see paragraph 20) would resolve the concerns raised by stakeholders about assessing whether particular investments that would otherwise be classified in the investing category above should be classified in the operating category.

40. The staff acknowledge that resulting outcomes may be different than some stakeholders may have expected applying the expression 'in the course of main business activities'. For example, some stakeholders may have expected that 'strategic investments' or investments made as 'ancillary activities' would be classified in the operating category. However, the staff think by having a clearer approach that is easier to apply it will result in more consistent outcomes across entities.

41. The staff therefore recommend the IASB revise the proposal in the Exposure Draft to require an entity to classify income and expenses from investments that generate a return individually and largely independently of other resources held by the entity in the operating category when the entity invests in those investments as a main business activity.

Question for the IASB
Q1 Does the IASB agree with the staff recommendation to revise the proposal in the Exposure Draft to require an entity to classify income and expenses from investments that generate a return individually and largely independently of other resources held by the entity in the operating category when the entity invests in those investments as a main business activity?

Aggregating investments with similar characteristics for assessing main business activities

42. The staff acknowledge feedback from those respondents that said when investing is a main business activity assessing whether income and expenses from each individual investment should be included in the operating category may be onerous (see paragraph 13). The staff think this feedback could be addressed by providing guidance permitting the assessment of investing as a main business activity at a more aggregated level.

43. In this section of the paper, we analyse:

    (a) the assets in the scope of the assessment (paragraphs 44–45);

    (b) whether the IASB should permit an entity to aggregate investments with similar characteristics for the assessment (paragraphs 46–53); and

    (c) whether the IASB should add guidance on income and expenses from financial assets recognised from providing financing to customers as a main business activity (paragraphs 54–55).

Assets in the scope of the assessment

44. Examples of assets with income and expenses classified in the investing category that are subject to the assessment of whether they are investments made as a main business activities include:

    (a) financial assets (excluding cash and cash equivalents);

    (b) investments in associates and joint ventures not accounted for using the equity method;

    (c) investment property; and

    (d) investments such as artwork held for capital appreciation (see paragraph B32 of the Exposure Draft).

45. The investing category also includes income and expenses from cash and cash equivalents (see Agenda Paper 21B of this meeting) and income and expenses from associates and joint ventures accounted for using the equity method (these proposals will be discussed in a future paper) which are not subject to the scope of the assessment of whether they are investments in the course of main business activities (see paragraphs 17(c) and 19(c)).

Assessing investments at an aggregated level

46. Entities that invest as a main business activity may also have investments that are not part of its main business activities. The Basis for Conclusions on the Exposure Draft explains that the IASB concluded income and expenses from the investments that are not a part of main business activities should be classified in the investing category because users of financial statements would benefit from separate information about

returns from investments that are unrelated to an entity's main business activities for all entities (see paragraph BC61 of the Basis for Conclusions on the Exposure Draft).

47. In developing the proposal, the IASB recognised that this would require entities to separate returns from investments that are a main business activity and those that are not. The IASB concluded that this would not cause significant incremental costs as entities are likely to have this information to manage their business (see paragraph BC61 of the Basis for Conclusions on the Exposure Draft).

48. The staff think that there are benefits to classifying investments that are not part of an entity's main business activities in the investing category for the reasons explained in the Basis for Conclusions on the Exposure Draft. In particular, ensuring comparability of the investing category across all entities. For example, if an entity that invests in real estate as a main business activity invested excess cash in financial instruments, the staff think it would aid comparability if the income and expenses on the investments of excess cash were included in the investing category. Similarly, for an entity with investing as one of multiple main business activities it would aid comparability to include income and expenses on investments made by subsidiaries that do not engage in investing as a main business activity in the investing category.

49. However, the staff acknowledge that there may be cases where assessing each individual asset may be onerous. For example, when an entity only invests in a single type of asset like investment properties or when an entity invests in portfolios of financial assets where the outcome of the assessment would be the same regardless of whether the entity performs the assessment for each individual asset or the portfolio as a whole.

50. To address these concerns, the staff recommend that the IASB permit an entity to perform the assessment of whether an investment is made as a main business activity on a group of assets with shared characteristics. The staff recommend this approach because generally it would be reasonable to expect that each asset in the group would individually meet the requirements to be classified in the operating category as an investment made as a main business activity. For example, when an entity only invests in investment properties as its main business activity generally it would be reasonable to expect that each investment property would be an investment made as a main business activity.

51. Permitting the use of a group of assets with shared characteristics as the basis for the assessment would be consistent with the principles of aggregation and disaggregation developed in this project for presentation and disclosure (see Agenda Paper 21A of the April 2021 IASB meeting).

52. The staff note that there are disclosure requirements in IFRS 7 which require disclosures by class of financial instrument. Paragraph 6 of IFRS 7 explains that an entity shall group financial assets into classes that are appropriate to the nature of information disclosed and that take into account the characteristics of those financial assets. Paragraphs B1 and B2 of IFRS 7 provide additional guidance on determining classes of financial assets. In order to avoid confusion in how to apply the requirements in the [draft] Accounting Standard and these requirements in IFRS 7, the staff recommend that the IASB clarify that groups of financial assets with shared characteristics used in the assessment in paragraph 50 should be consistent with the way an entity groups financial assets into classes for the purposes of disclosures about financial instruments in accordance with IFRS 7.

53. The staff do not think that a requirement to disclose when the entity has performed the assessment in groups is needed, because such disclosure is not expected to provide material information. The staff intend to discuss in a future paper whether the requirement to disclose in the notes judgements management has made in the processes of applying the entity's accounting policies should be extended to include judgements over presentation in the primary financial statements (see paragraph 27E of the revised IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the Exposure Draft). The staff think if this assessment in groups required significant judgement it would be covered by this disclosure requirement.

Financial assets recognised from providing financing to customers

54. The staff note that in developing the proposals in the Exposure Draft the IASB was intending for an entity that provides financing to customers to classify the income and expenses from the financial assets recognised from that activity directly in the operating category because the income is a type of revenue for these entities (see paragraph BC247 of IFRS 15 *Revenue from Contracts with Customers*).

55. Paragraph B32 of the Exposure Draft includes income and expenses from financial assets as an example of income and expenses from investments that would typically be classified in the investing category. In order to make the IASB's intentions explicit and to avoid confusion over whether income and expenses from financial assets recognised from providing financing to customers are classified directly in the operating category or financial assets in the investing category that are subject to the assessment of whether they are investments made as main business activities, the staff recommend that the IASB add application guidance clarifying that income and expenses from financial assets recognised from providing financing to customers are classified in the operating category.

Question for the IASB

Q2 Does the IASB agree with the staff recommendation to:

(a) add application guidance permitting an entity to perform the assessment of whether investments are made as a main business activity for a group of assets with shared characteristics. Groups of financial assets with shared characteristics used in this assessment should be consistent with the way an entity groups financial assets into classes for the purposes of disclosures about financial instruments in accordance with IFRS 7; and

(b) add application guidance clarifying that income and expenses from financial assets recognised from providing financing to customers are classified in the operating category?

Appendix A—Extracts from the Exposure Draft

A1. The paragraphs from the Exposure Draft are reproduced below.

46 The operating category includes information about income and expenses from an entity's main business activities. An entity shall classify in the operating category all income and expenses included in profit or loss that are not classified in:

(a) investing;

(b) financing;

(c) integral associates and joint ventures;

(d) income tax; or

(e) discontinued operations.

47 The objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. Except as required by paragraph 48, an entity shall classify in the investing category:

(a) income and expenses from investments, including from non-integral associates and joint ventures (see paragraphs B32–B33).

(b) incremental expenses incurred generating income and expenses from investments. Incremental expenses are expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made.

48 An entity shall not classify in the investing category income and expenses specified in paragraphs 47(a)–47(b) generated in the course of its main business activities. Such income and expenses are instead classified in the operating category. An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category.

B27 Paragraph 48 requires an entity to classify in the operating category income and expenses from investments in the course of its main business activities. Whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement. In general, investments are likely to have been made in the course of an entity's main business activity when investment returns are an important indicator of

operating performance. Examples of entities that invest in the course of their main business activities may include:
(a) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;
(b) investment property companies; and
(c) insurers.

B32 Paragraph 47 requires an entity to classify income and expenses from investments in the investing category except when paragraph 48 requires the entity to classify them in the operating category. Income and expenses from investments would typically include:

(a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:

(i) interest revenue;

(ii) impairment losses and reversals of impairment losses;

(iii) gains and losses on disposal;

(iv) fair value gains and losses;

(v) dividends from equity investments;

(vi) the share of profit or loss of non-integral associates and joint ventures; and

(vii) income and expenses from associates and joint ventures not accounted for using the equity method; and

(b) income and expenses from other investments such as:

(i) income and expenses on investment property;

(ii) impairment losses and reversals of impairment losses;

(iii) income or expenses from speculative investments, such as investments in artwork held for capital appreciation; and

(iv) gains and losses on disposal.

B33 Income and expenses from investments do not include income and expenses from assets used by an entity in the production of goods and delivery of services. Income and expenses derived from such assets result from the combination of those assets with other resources of the entity, such as employees, raw materials or intangible assets, and not from the individual assets on their own. Examples of such income and expenses not from investments include:

(a) interest revenue from trade receivables, which would be classified in the operating category;

(b) income and expenses from property, plant and equipment and intangible assets, including depreciation, amortisation, impairment and disposal gains and losses, which would be classified in the operating category; and

(c) gains or losses on disposal of a discontinued operation, which would be classified in the discontinued operations category.

B78 In accordance with paragraph 104(b) subtotals similar to gross profit are not management performance measures. A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:
(a) net interest income;
(b) net fee and commission income;
(c) insurance service result;
(d) net financial result (investment income minus insurance finance expenses); and
(e) net rental income.

BC60 For some entities, such as insurers, investing in assets that generate returns individually and largely independently of entity's other resources is an important activity performed in the course of their main business activities although it may not be their main business activity. For example, an insurer's main business activity may be underwriting, but it may invest in assets that generate returns individually and largely independently of its other resources in the course of its underwriting business activity. To classify income and expenses from such assets in the operating category, the proposals refer to 'activities that are conducted in the course of an entity's main business activities' rather than to an entity's main business activities. This proposal would also capture entities for whom such activities are their main business activity, for example, investment entities.

BC 61 The Board's proposal relates only to returns from investments made in the course of an entity's main business activities. Entities with such investments may also have investments that are not made in the course of their main business activities. Income or expenses arising from such investments are classified in the investing category. The Board recognises that this would require entities to separate returns from investments made in the course of their main business activities from those that are not. However, the Board concluded that this would not cause significant incremental costs as entities are likely to have this information to manage their business. Also, users of financial statements would benefit from separate information about returns from investments that are unrelated to an entity's main business activities for all entities.

IAS 8.27E [IAS 1.122] An entity shall disclose in the notes, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 12531A), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Appendix B—Extracts from IFRS Accounting Standards

B1. The paragraphs from IFRS 7 are reproduced below.

6 When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

B2 In determining classes of financial instrument, an entity shall, at a minimum:
(a) distinguish instruments measured at amortised cost from those measured at fair value.
(b) treat as a separate class or classes those financial instruments outside the scope of this IFRS.

B2. The paragraphs from IFRS 9 are reproduced below.

4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).

5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Dividends on such investments are recognised in profit or loss in accordance with paragraph 5.7.6 unless the dividend clearly represents a recovery of part of the cost of the investment.

B3. The paragraphs from IFRS 15 are reproduced below.

BC247 The boards noted that some entities (for example, banks and other entities with similar types of operations) regularly enter into financing transactions and, therefore, interest represents income arising from ordinary activities for those entities. The boards noted that the requirements in paragraph 65 of IFRS 15 do not preclude an entity from presenting interest as a type of revenue in circumstances in which the interest represents income from the entity's ordinary activities.