IFRS 18: Entities with Specified Main Business Activities

Extract, IFRS® Discussion Group Report on the Meeting – May 12, 2026

Background

IFRS 18 *Presentation and Disclosure in Financial Statements* requires entities to classify income and expenses into one of five categories in the statement of profit or loss: operating, investing, financing, income taxes and discontinued operations. It specifies which items of income and expenses entities should recognize in the investing and financing categories; however, when an entity has a "specified main business activity," it will be required or permitted to classify some items of income and expenses in the operating category (paragraph 50 of IFRS 18). The two types of business activities that entities need to assess to determine whether they are a "specified main business activity" are:

a. investing in particular types of assets ("investing in assets"); and

b. providing financing to customers (paragraph 49 of IFRS 18).

Therefore, an entity needs to determine whether it undertakes one of the specified business activities and whether that activity is a main business activity of the entity. This determination can significantly affect the presentation of income and expenses in the financial statements, as it changes which items of income and expenses entities should include in the operating category.

Investing in assets

Paragraph 53 of IFRS 18 notes that entities should classify income and expenses from the following types of assets in the investing category unless it invests in these assets as a specified main business activity:

a. investments in joint ventures, associates and unconsolidated subsidiaries (the Group will only consider joint ventures and associates for this discussion as these types of investments are widespread among Canadian entities. Unconsolidated subsidiaries apply primarily to investment entities under IFRS 10 *Consolidated Financial Statements* and entities that are permitted to, and do, prepare non-consolidated financial statements in accordance with IAS 27 *Separate Financial Statements*);

b. cash and cash equivalents; and

c. other assets that generate a return individually and largely independently of the entity's other resources (hereafter referred to as "independent assets").

Paragraph 55 of IFRS 18 notes that entities should classify income and expenses from joint ventures and associates that it invests in as a main business activity:

a. in the investing category if the assets are accounted for applying the equity method; or

b. in the operating category if the assets are not accounted for applying the equity method.

Paragraph 56 of IFRS 18 notes that entities should classify income and expenses from cash and cash equivalents 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 should 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 should 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 should 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).

Paragraph 57 of IFRS 18 notes that if an entity applying paragraph 56(b) cannot distinguish between the cash and cash equivalents described in paragraphs 56(b)(i)-(ii), it should 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.

Paragraph 58 of IFRS 18 notes that entities should classify income and expenses from independent assets in the operating category if the entity invests in them as a main business activity.

Normally, it is straightforward to identify whether the entity invests in joint ventures and associates or owns cash and cash equivalents. However, it may be challenging to identify some independent assets. This assessment is important because, if the assets are not independent, the entity does not need to assess whether investing in them is a main business activity, as the related income and expenses would be classified in the operating category. IFRS 18 does not require an entity to assess all its main business activities; rather, it requires only an assessment of whether the specified business activities are main business activities.

Paragraph B46 of IFRS 18 states that independent assets will “typically include”:

a. debt or equity investments, and

b. investment properties including receivables for rent generated by those properties.

Paragraph B48 of IFRS 18 provides examples of assets that do not typically meet this definition because they are used to produce or supply goods or services. They include:

a. property plant and equipment;

b. assets that arise from the production or supply of goods and services for which the income and expenses are classified in the operating category; an example of this is trade receivables; and

c. loans to customers, if providing financing to customers is a main business activity.

Providing financing to customers

In determining what income and expenses to classify in the financing category, paragraph 59 of IFRS 18 requires an entity to distinguish between liabilities that arise from transactions that involve only the raising of finance (referred to as "Type 1" liabilities in this discussion) and liabilities other than those that involve only the raising of finance (referred to as "Type 2" liabilities in this discussion). Paragraph B50 of IFRS 18 explains how to identify Type 1 liabilities:

In such transactions, an entity:

a. receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of the entity's own equity instruments; and

b. at a later date, will return in exchange cash or its own equity instruments.

When an entity has a main business activity of providing financing to customers, it should present all of the specified income and expenses from Type 1 liabilities in the operating category when the liability relates to providing financing to customers. When the liability does not relate to providing financing to customers or the entity cannot distinguish between liabilities that are and those that are not related to providing financing to customers, the entity has an accounting policy choice to present the specified income and expenses in the operating category or the financing category. This policy is consistent with that made for cash and cash equivalents. However, for Type 2 liabilities there is no change to the presentation of the related income and expenses. In other words, entities should recognize income and expenses related to interest and changes in interest rates in the financing category and other income and expenses in the operating category.

When is providing financing to customers a "main" business activity?

Paragraph B33 of IFRS 18 explains that whether investing in assets or providing financing to customers is a main business activity of an entity is a matter of fact and not merely an assertion. Management should use its judgment to assess whether investing in assets or providing financing to customers is a main business activity and that assessment should be based on evidence.

Paragraph B34 of IFRS 18 notes that investing in assets or providing financing to customers is likely to be a main business activity if the entity uses a subtotal that is similar to gross profit as an important measure of operating performance. So, if the entity uses the results of investing in assets or providing financing to customers as an indicator of operating performance, this indicates that such activities are main business activities of the entity. These subtotals could be used to explain operating performance externally or to assess and monitor operating performance internally.

Paragraph B36 of IFRS 18 notes that information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies IFRS 8 *Operating Segments*. If a reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity. If an operating segment comprises a single business activity, this indicates that the business activity might be a main business activity of the entity if the performance of the operating segment is an important indicator of the entity's operating performance.

A specified main business activity of providing financing to customers includes consideration of whether the recipient is a customer. This implies that the action of providing financing is in the ordinary course of operations for the entity.

The determination of a main business activity must be made at the reporting-entity level. Therefore, the determination of whether an activity is a main business activity may be different when determined for a subsidiary than when determined for a consolidated group that includes the subsidiary among other businesses (paragraph B37 of IFRS 18).

Fact Pattern for Issue 1

- Entity A is an asset management company that earns revenues from providing asset management services to other entities (asset management customers).
- Depending on the arrangement, the asset management fees may be settled in cash or by delivery of equity instruments of the customer.
- Entity A also makes investments in the equity securities of some of its asset management customers (usually up to 10 per cent). It is not required to do so under the asset management agreements, but it chooses to do so to obtain additional returns, strengthen the customer relationship and signal to third-party investors in the customers that it has "skin in the game."
- Entity A has determined that under IFRS 10 it does not control, and therefore does not consolidate, these customers.

Issue 1: Do the Equity Instruments in Entity A's Customers Generate a Return Individually and Largely Independently from Entity A's Other Resources?

Analysis

View 1: The securities generate a return individually and largely independently from Entity A's other resources

Proponents of this view note that investments in equity securities can generate a return both individually and independently of an entity's other resources because their returns are generated by dividends declared by the investee and changes in the fair value of the investee's equity. In other words, the nature of these equity investments makes them individual assets. Paragraph B46 of IFRS 18 lists equity securities as an example of items that generate a return individually and largely independently of an entity's other resources because they are separate financial instruments governed by contract. Therefore, proponents of this view think all equity securities meet the definition of individual assets regardless of how the entity obtained them. In this fact pattern, even though the asset manager may have the ability to influence the fair value of the equity instruments (and therefore its returns), it is not obligated to hold these instruments as part of its customer contracts. Therefore, the equity securities can generate a return individually and independently of its other resources.

Under this view, Entity A would classify income and expenses relating to the equity instruments in its customers in the investing category unless it can demonstrate that it invests in these assets as a main business activity.

View 2: The securities do not generate a return individually and largely independently from Entity A's other resources

Proponents of this view note that IFRS 18 does not specify that the assets must be *capable* of generating returns individually and largely independently of an entity's other resources. It specifies that they do generate returns individually and largely independently of its other resources. Therefore, Entity A must consider all facts and circumstances about how it generates returns from the assets. In this fact pattern, the asset management contract permits the entity to influence the fair value of the investees through the provision of asset management services. As a result, any returns generated are not independent of Entity A's other resources because Entity A impacts them using its asset management resources. This applies to both the equity securities it obtains through providing services and those it invests in voluntarily. Under this view, any investments in equity securities of entities that are not Entity A's asset management customers would be considered independent assets.

Under this view, Entity A would classify income and expenses relating to these assets in the operating category.

View 3: The investments that Entity A purchases voluntarily generate a return individually and largely independently from its other resources. The equity investments that Entity A obtains through providing goods and services to customers do not.

Proponents of this view note that the equity securities Entity A obtains as consideration for providing asset management services to its customers are assets that arose from the provision of services. Entity A would recognize revenue and expenses from providing these services in the operating category. Therefore, they think Entity A should also recognize the returns related to these equity securities in the operating category. However, the equity investments Entity A purchases voluntarily did not arise from the provision of services. For the reasons highlighted in View 1, those equity securities would be considered independent assets.

Under this view, Entity A would recognize income and expenses from the investments it obtains voluntarily in the investing category, unless it can demonstrate it invests in these assets as a main business activity. It would recognize income and expenses from investments it obtains through providing goods and services to customers in the operating category.

This view would require Entity A to carefully track its equity investments to distinguish between those that it obtained as consideration for services and those that it purchased voluntarily, which may be challenging.

The Group's Discussion

Most Group members supported View 1 as they think equity instruments inherently generate returns individually and largely independently of an entity's other resources regardless of how an entity obtained them. Several Group members noted that, depending on the facts and circumstances, they might support View 2. For example, if Entity A were required to hold the equity securities until the fund is liquidated or until a future vesting date, this might indicate that the instruments do not generate returns independently of its asset management resources. Some Group members noted that they would also consider how much influence Entity A has over its asset management customers' returns. They noted that evidence of a direct link between Entity A's actions and its customers' returns would provide additional support for View 2. Some Group members emphasized that entities should clearly disclose any management judgment used to support View 2. The Group did not support View 3 as they thought the source of the securities was irrelevant when assessing whether they generate returns individually and largely independently of the entity's other resources.

Issue 2: What Business Activities Result in an Entity Providing Financing to Customers?

Analysis

IFRS 18 does not define "providing financing to customers," but it does provide examples of entities that might provide financing to customers as a main business activity. These include banks and other lending institutions, entities that provide financing to customers to enable them to buy the entity's products, and lessors that provide financing to customers in finance leases. While these examples relate to assets that arise from applying different IFRS Accounting Standards (i.e., IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*), the respective standards all require the entity to recognize interest income. However, only paragraph 6 of IFRS 15 defines a "customer" as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." One might interpret "goods and services" more broadly under IFRS 16 and IFRS 9 to include access to loans when this is part of the entity's ordinary activities. However, IFRS Accounting Standards do not provide clear guidance on this point, including when an activity might be an "ordinary activity."

It might be important to distinguish between entities that provide financing to other entities through loans, including to related parties such as joint ventures, associates or entities under common control, and those that provide financing to customers.

The Group discussed how an entity determines whether it provides financing to customers and whether the recipient of financing is a "customer."

What business activities result in an entity providing financing to customers - operating leases?

The IFRS Interpretations Committee plans to discuss a submission on a related topic at an upcoming meeting (see Assessment of a specified main business activity for a manufacturer-lessor). Therefore, the Group will not discuss this topic.

The Group's Discussion

The Group thought assessing whether an entity provides financing to customers should not be limited to customers as defined in IFRS 15. One Group member thought IFRS 18 would have explicitly referred to that definition if the IASB intended to include such a restriction. Instead, they think entities should consider the nature of its activities when determining whether it provides financing to customers.

One Group member also noted that in certain industries, such as telecommunications and midstream oil and gas, customer contracts commonly contain embedded leases. In these cases, it may be more straightforward to conclude that the entity is providing financing to a customer, as the customer relationship is already established under the IFRS 15 component of the contract.

Fact Pattern for Issue 3

- Company X is a consolidated group that is a Canadian public company with several subsidiaries, including Subsidiary Y and Subsidiary Z. Subsidiary Y sells a range of supplies to the construction industry.
- Subsidiary Z provides loans to Subsidiary Y's customers to help facilitate purchases of goods from Subsidiary Y. Subsidiary Z recognizes interest income on the loans, along with an appropriate provision for expected credit losses under IFRS 9. Subsidiary Z funds the provision of these loans to customers through a mix of external and intercompany borrowing from Company X, both received through cash draws.
- Subsidiary Z is a wholly owned subsidiary of Company X and is not in scope of IFRS 8. Therefore, it has not determined operating or reportable segments for such purposes. It does not produce external reporting in public communications itself. However, Subsidiary Z's management monitors the company's performance on a net interest margin basis internally as the loans to Subsidiary Y's customers are substantially all of its activities. In addition, Subsidiary Z presents net interest margin in the income statement of its stand-alone financial statements and in communications with ratings agencies and other parties that lend money to Subsidiary Z.
- Subsidiary Z concludes that it has a main business activity of providing financing to customers. As a result, the loans are not considered to be independent assets. Subsidiary Z recognizes income and expenses from those loans and interest expense on external and intercompany borrowing in the operating category.
- Company X consolidates Subsidiary Z. The interest revenue earned within Subsidiary Z represents about 3 per cent of the consolidated revenues of Company X. When applying

IFRS 8, Subsidiary Y and Subsidiary Z are a single operating segment for Company X based on an assessment of how the chief operating decision maker assesses performance and makes resource allocation decisions.

- In external reporting (i.e., management discussion and analysis (MD&A)), Company X discloses net interest margin specifically relating to Subsidiary Z as a performance measure, consistent with the information provided to Subsidiary Z's lenders and ratings agencies. However, it does not present net interest margin as a performance measure for Company X as a whole; that is, it does not include other interest income or interest expense from Subsidiary Y or other subsidiaries. Net interest margin is not presented on the consolidated income statement of Company X, in the segment note nor in any other financial statement note.

Issue 3: Is Providing Financing to Customers a Main Business Activity for Company X?

Analysis

View 1: Yes, Company X provides financing to customers as a main business activity

Proponents of this view note that Subsidiary Z provides financing to customers, which are taking the output of the entity's ordinary activities. Subsidiary Z's activities do not constitute a reportable segment or operating segment, and so that indicator is not met. However, the results of Subsidiary Z's net interest margin are reported in Company X's MD&A, and Subsidiary Z's management uses them internally. This indicates that this subtotal is used to explain operating performance externally and to monitor operating performance internally.

View 2: No, Company X does not provide financing to customers as a main business activity

Proponents of this view note that, while providing financing to customers is a main business activity of Subsidiary Z, IFRS 18 is clear that the assessment must be made at the reporting-entity level. Unlike Subsidiary Z, which presents a net interest margin in its financial statements, Company X does not. Company X does not consider Subsidiary Z to be an operating segment, indicating that it does not monitor net interest margin or performance for the subsidiary internally, even though that information is available from Subsidiary Z.

Proponents of this view also think the reason Company X discloses the net interest margin of Subsidiary Z in its MD&A is relevant. If the purpose is to align disclosure with Subsidiary Z's reporting, rather than to communicate performance for Company X as a whole, then the indicator in paragraph B35 of IFRS 18 is not met. Furthermore, since Subsidiary Z contributes to a very small proportion of Company X's total revenues, its performance is unlikely to have a material impact on Company X's overall performance. This indicates that it is not a "main" business activity of Company X.

The Group's Discussion

The Group noted that assessing whether providing financing to customers is a specified main business activity requires judgment based on specific facts and circumstances. Some Group members emphasized that an entity's analysis of whether it provides financing to customers as a main business activity should focus on the entity's overall business model and how management views and operates the business. They raised some factors that management should consider, including the importance of the financing activity to the entity's overall business strategy, its inclusion in internal reporting, and the prominence of the activity in public disclosures.

Several Group members noted that quantitative materiality alone is not determinative, and that entities should also consider qualitative factors. Some important qualitative factors Group members raised included the role of financing in driving demand for the entity's products, its integration with other business activities, and its importance to the entity's overall operating performance. One Group member also noted that entities should not apply the indicators in the standard as a checklist. Rather, they noted that entities may need to weigh potentially conflicting evidence. They noted that entities should clearly document and disclose the judgments made in determining whether providing financing to customers is a specified main business activity.

Overall, the Group's discussion raised awareness of factors an entity should consider when determining whether it has a specified main business activity. Given the significant judgment that might be involved in making this determination, the Group encouraged entities to begin analyzing their business activities as soon as possible. No further actions were recommended to the AcSB.