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> Classification of Income and Expenses when an Entity Has a Main Business Activity of Providing Financing to Customers (IFRS 18)

> Tentative Agenda Decision and comment letters

Tentative Agenda Decision and comment letters: Classification of Income and Expenses when an Entity Has a Main Business Activity of Providing Financing to Customers (IFRS 18)

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The IFRS Interpretations Committee (Committee) discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence.

Tentative Agenda Decision

Open for comment until 9 September 2026

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.

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

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

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.

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

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.

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.

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

Paragraph 56(b)(ii) and 65(a)(ii) 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.

Paragraph 57 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.

The Committee observed that, if, as required by paragraph 57, 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

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 to address the request.

The deadline for commenting on the tentative agenda decision is **9 September 2026**. The Committee will consider all comments received in writing by that date; agenda papers analysing comments received will include analysis only of comments received by that date.

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