

9 September 2026

International Accounting Standards Board
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Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: CLASSIFICATION OF INCOME AND EXPENSES WHEN AN ENTITY HAS A MAIN BUSINESS ACTIVITY OF PROVIDING FINANCING TO CUSTOMERS (IFRS 18)

In response to your request for comments on Tentative Agenda Decision: Classification of Income and Expenses when an Entity Has a Main Business Activity of Providing Financing to Customers (IFRS 18), attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

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Chairperson: APC

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Cc: Kedibone Sono
Head: Financial Reporting

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SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: CLASSIFICATION OF INCOME AND EXPENSES WHEN AN ENTITY HAS A MAIN BUSINESS ACTIVITY OF PROVIDING FINANCING TO CUSTOMERS (IFRS 18)



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

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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.

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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.

SPECIFIC COMMENTS

We note the Committee's conclusion in Question 2 that, when an entity cannot distinguish between specified liabilities that relate to providing financing to customers and those that do not, paragraph 66 of IFRS 18 requires the entity to classify income and expenses from all specified liabilities in the operating category of the statement of profit or loss. The Committee further observed that the reference to "all such liabilities" refers to all specified liabilities of the consolidated group.

While we understand the rationale underlying this conclusion, we believe that the wording in paragraph 66 may not be sufficiently clear to support a single interpretation. In particular, the phrase "all such liabilities" could be interpreted in different ways. Other members believe that the phrase refers only to the subset of specified liabilities for which the entity is unable to determine whether they relate to providing financing to customers or not whilst other members believe that the phrase refers to all specified liabilities of the reporting entity.

Although we acknowledge that the Basis for Conclusions appears to support the Committee's interpretation, we are concerned that the wording of the Standard itself may not convey this outcome sufficiently clearly. As a result, entities could reasonably reach different conclusions when applying paragraph 66, leading to inconsistent application in practice.

We therefore encourage the Committee to clarify the intended meaning of the phrase "all such liabilities" and to explain more explicitly why the requirement extends to all specified liabilities rather than only those liabilities for which the entity is unable to make the distinction required by paragraph 65(a). Additional explanation would help ensure that stakeholders consistently apply the requirements and understand the interaction between paragraphs 65 and 66 of IFRS 18.