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Dear Sir

Tentative IFRS Interpretations Committee Agenda Decision: Assessment of Specified Main Business Activities for a Manufacturer-Lessor (IFRS 18)

We are pleased to comment on the above Tentative Agenda Decision (TAD) of the IFRS Interpretations Committee (the Committee). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the TAD.

We appreciate the Committee's efforts to assist entities in responding to their questions about the application of new IFRS Accounting Standards, including IFRS 18, however, we are concerned about the rationale for the conclusion reached by the Committee in responding to this particular question.

The submission set out a specific set of facts concerning a manufacturer-lessor and asked the Committee about whether the entity's 'aggregated lease activity' comprises a main business activity of providing financing to customers. The TAD then considers the requirements of IFRS 18 for assessing whether an entity has such a specified main business activity, and concludes that it 'it is likely' that those aggregated lease activities represent a main business activity of providing financing to customers.

We understand that the Committee regularly must consider judgemental matters when responding to a request, but observe that IFRS 18 includes limited requirements for assessing whether an entity has a specified main business activity as set out in IFRS 18.49; however, while IFRS 18.B33 confirms that the determination of whether an entity has a particular main business activity is a matter of fact, it acknowledges that judgement is involved. In contrast, in reaching the conclusion about the likelihood of whether the entity has a main business activity of providing financing to customers, the only specific evidence considered by the TAD is the entity's use of one or more subtotals for its aggregated lease activity, as set out in IFRS 18.B34.

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We assume the language selected in the TAD ('it is likely') is drawn from the wording of IFRS 18.B34 (**emphasis added**):

*In general, investing in assets or providing financing to customers **is likely to be** a main business activity of an entity if the entity uses a particular type of subtotal as an important indicator of operating performance. The particular type of subtotal is a subtotal similar to gross profit (see paragraph B123) that includes income and expenses that would be classified in the investing or financing categories if investing in assets or providing financing to customers were not main business activities.*

We understand that the wording in the TAD likely reflects this guidance in IFRS 18.B34, however, we are concerned that due to the lack of positive criteria included in IFRS 18 to make the judgement about whether an entity has a main business activity set out in IFRS 18.49, users of the TAD may believe that, in the judgement of the Committee, the use of a subtotal is more likely than not sufficient to conclude on the assessment of an entity's main business activities without consideration of wider facts and circumstances.

We do not believe it is necessary for the TAD to state that providing operating leases does not preclude the conclusion included in the TAD. That is because this is redundant, and in our view, introduces a risk that stakeholders may consider this as evidence that providing operating leases by itself may be a clear indication of an entity having a specified main business activity of providing financing to customers as set out in IFRS 18.49.

We suggest the following adjustments to the wording of the TAD (~~words deleted~~; **words added**):

In considering the fact pattern, the Committee observed that:

a. **As set out in** ~~applying paragraph~~ B34 of IFRS 18, it is likely that the entity's aggregated lease activity, comprising its finance lease and operating lease activities, is a main business activity of providing financing to customers **because of its use of a particular type of subtotal**. ~~This assessment is evidenced by~~ The entity's use of one subtotal for its aggregated lease activity (as described in the fact pattern) ~~that~~ is similar to gross profit as an important indicator of operating performance. **While paragraph B34 of IFRS 18 set out that this conclusion is likely, the assessment of an entity's main business activity is still a matter of fact and judgement is required as set out in paragraph B33 of IFRS 18.**

~~b. the classification of some of the entity's leases as operating leases does not preclude the entity's aggregated lease activity from being of a type that provides financing to customers.~~

b. paragraph B32 of IFRS 18 does not include an example of an entity that provides financing to customers in operating leases as a type of entity that might provide financing to customers as a main business activity. However, the absence of an entity that provides financing to customers in operating leases from the examples in paragraph B32 is not determinative; those examples are not an exhaustive list.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7776 215267 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan.

Andrew Buchanan

Global Head of IFRS and Corporate Reporting