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Dear Sir

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

We are pleased to comment on the above noted 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 agree with the Committee's technical analysis in the TAD applying the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements,* except for our comment related to question #2 below.

On question #1 considered in the TAD, the conclusion reached by the Committee is consistent with BDO's published view, as explained in section 3.8.2 and section 3.9.1 of [IFRS Accounting Standards in Practice: IFRS 18 *Presentation and Disclosure in Financial Statements*]. BDO's published view deals with the question of whether the accounting policy choice for income and expenses from cash and cash equivalents applies to the reporting entity as a whole when an entity has multiple business activities, including the main business activity of providing financing to customers. A similar conclusion would be reached for the applicability of accounting policy choice for income and expenses from liabilities that arise from transactions that involve only the raising of finance.

On question #2 considered in the TAD, we agree that the phrase '*all such liabilities*' in IFRS 18.66, when read in conjunction with IFRS 18.BC183 and BC184, should be interpreted to refer to all of the specified liabilities of the consolidated group as specified in the fact pattern. However, we encourage the Committee to consider whether the accounting outcome of such interpretation gives useful information to users. Our concern relates to the fact that a consequence of applying IFRS 18.66 to all liabilities that arise from transactions that involve only the raising of finance is that all income and expenses from 'pure financing liabilities' must also be classified in the operating category despite the fact that an entity may be able to make the necessary distinguishment for many of the 'pure financing' liabilities issued by the entity. Additionally,

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because of the requirement for consistency in IFRS 18.56(b)(ii), all income and expenses from cash and cash equivalents would also be required to be classified in the operating category. Therefore, a consequence of an entity not being able to distinguish between those ‘pure financing’ liabilities that relate to providing financing to customers and those that do not is that all income and expenses from ‘pure financing’ liabilities and cash and cash equivalents must be classified in the operating category for the entire reporting entity.

Our concern is that this outcome may not provide useful information to users of financial statements because a significant amount of a reporting entity’s financial performance may be classified in the operating category despite the fact that it would be more accurate to characterise them as financing or investing. This outcome is particularly significant for corporate groups with diverse operations and a central treasury function, where this outcome may occur more often.

On question #3, while we agree with the technical analysis and conclusion of the TAD, the concern about the practical effects of the conclusion that we raised in question #2 is also applicable in this scenario. That is, when an entity cannot distinguish between those cash and cash equivalents that relate to providing financing to customers and those that do not, all income and expenses from ‘pure financing’ liabilities and cash and cash equivalents are classified in the financing category because of the ‘consistency’ requirements of IFRS 18.56(b)(ii) and 65(a)(ii).

Additionally, we have the following recommendation in the wording of the TAD:

- The analysis for question #3 states ‘*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.*’

  We suggest that the sentence be amended to include the specific wording in IFRS 18.57 which requires an entity to 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. This is to emphasise the fact that the entity in this case is applying ‘*the accounting policy choice*’ in IFRS 18.56(b)(ii) and therefore, the consistency requirement in IFRS 18.56(b)(ii) applies to the entity.

We agree with the Committee’s decision not to add this item to its agenda.

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