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Mr. Bruce Mackenzie
IFRS Interpretations Committee
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Our ref BOD/288

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Dear Mr. Mackenzie

Assessment of Specified Main Business Activities for a Manufacturer-Lessor (IFRS 18)

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee's) tentative agenda decision (TAD) *Assessment of Specified Main Business Activities for a Manufacturer-Lessor (IFRS 18 Presentation and Disclosure in Financial Statements)*. This letter reflects the views of the KPMG network.

We welcome the Committee's efforts to address the assessment of whether the entity's aggregated lease activity, comprising its finance and operating lease activities, is a main business activity of providing financing to customers under IFRS 18 *Presentation and Disclosure in Financial Statements*. Timely interpretation of the standard in respect of this issue is important to promote consistent application as stakeholders implement IFRS 18.

We do not disagree with the outcome of the TAD in the fact pattern submitted. However, we are concerned with the lack of clear explanation of the key factors supporting the Committee's observation that "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". In the absence of a clear articulation of the basis for this observation, entities may find it difficult to apply the agenda decision consistently to similar fact patterns.

The conclusion appears to be based almost entirely on the entity's use of a single gross profit-like subtotal as evidence that it is likely that its aggregated lease activity is a main business activity of providing financing to customers. Although paragraph B34 of IFRS 18 suggests that the use of a gross profit-like subtotal may be an indicator of a specified main business activity – either investing in assets or providing financing to customers – it does not, in itself, explain why the activity should be characterised as a main business activity of providing financing to customers rather than investing in assets.

We agree with the observations in bullets b and c of the TAD but note that they merely explain why the entity's aggregated lease activity cannot be ruled out as being a specified main business activity of providing financing to customers. They are not determinative arguments.

The fact pattern in the TAD refers to a particular type of gross profit-like subtotal and describes other facts and circumstances (e.g. refinancing arrangements). However, the TAD does not explain whether, and if so how, the composition of the subtotal affects the analysis, or what other considerations in this fact pattern are relevant to the Committee's conclusion.

Overall, the observations in the TAD do not explain which factors are critical in supporting the Committee's conclusion. If those factors are not identified, it is unclear what evidence supports management's judgement in this fact pattern (as required by paragraph B33).

We believe that the TAD needs to explain the rationale for the conclusion, in particular:

- why the use of a gross profit-like subtotal demonstrates a main business activity of providing financing to customers rather than a main business activity of investing in assets or another main business activity;
- how the composition of such subtotal affects the assessment of a specified main business activity; and
- what other factors, including those present in the fact pattern, may be relevant in assessing the entity's specified main business activities, in addition to the subtotal.

In addition, it would be helpful to ringfence the conclusion to this specific fact pattern and clarify that the conclusion reflects an application of judgement rather than the only outcome, i.e. other manufacturer-lessors may reach a different conclusion in broadly similar facts and circumstances.

Lastly, the Committee's deliberations and the TAD itself indicate that there may be a gap in IFRS 18 regarding the meaning of a business activity of providing financing to customers and its interaction with a specified main business activity of investing in assets. The absence of a definition or clear boundaries for 'providing financing to customers' may result in diversity in practice, not only among operating lessors with different business models (e.g. investment property companies), but also more broadly. For example, entities that are not banks may seek to apply the provisions in IFRS 18 that are intended for banks under a far-reaching interpretation of 'providing financing to customers' to avoid mismatched classification of income and expenses in profit or loss.

Recommendation

We recommend that the Committee does not finalise the TAD in its current form. In our view, the TAD should be revised to explain more clearly the factors that support the conclusion that the entity's aggregated lease activity is a main business activity of providing financing to customers in this fact pattern. In the absence of further clarification, the TAD is open to various interpretations and diversity in practice will arise.

The revised TAD should also:

- ringfence the conclusion to this specific fact pattern; and
- clarify that the conclusion involves the application of judgement rather than being the only outcome.

Such acknowledgement is important as the TAD may be relevant not only to entities with similar business models – i.e. manufacturer-lessors – but also to other entities whose main business activities involve operating leases, such as investment property companies.

We recognise that the Committee may not be able to address the broader conceptual question regarding the meaning of a business activity of providing financing to customers and its interaction with a specified main business activity of investing in assets, and therefore we recommend that the Committee reports the broader concern to the International Accounting Standards Board (IASB) such that the IASB can consider further actions including standard-setting.

Our key concerns are further explained in the Appendix to this letter.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Agnieszka Sekita at agnieszka.sekita@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix – Key Concerns

Our key concerns are set out below.

1. ***Lack of clarity on why the use of a gross profit-like subtotal demonstrates a main business activity of providing financing to customers rather than a main business activity of investing in assets or another main business activity***

   In observing that the entity's aggregated lease activity is likely to be a main business activity of providing financing to customers, the Committee referred to the fact that the entity uses a single gross profit-like subtotal for its aggregated lease activity as an important indicator of operating performance.

   While we agree that the use of a gross profit-like subtotal in assessing or explaining operating performance, consistent with paragraphs B34–B35 of IFRS 18, may indicate that a particular activity is a main business activity, the TAD does not explain why, in this fact pattern, this subtotal demonstrates a main business activity of providing financing to customers rather than a main business activity of investing in assets or another type of business activity. In other words, the existence of a gross profit-like subtotal may indicate that the aggregated lease activity is important to the entity's business model, but it does not explain why that activity should be viewed as a main business activity of providing financing to customers or a main business activity of investing in assets or another type of business activity.

   We also note that the question in the original submission – i.e. whether operating lease activities of a manufacturer-lessor constitute a specified main business activity of either 'providing financing to customers' or 'investing in assets' – has not been addressed in this TAD. Instead, the scope of the TAD has been narrowed to the question of whether there is a specified main business activity of providing financing to customers without addressing why a main business activity of investing in assets has been ruled out.

   Consequently, it is unclear how other manufacturer-lessors should distinguish between circumstances in which lease activities are considered a main business activity of providing financing to customers and circumstances in which they are considered another type of business activity.

2. ***Lack of clarity on how the composition of a gross profit-like subtotal affects the assessment of a specified main business activity***

   In the fact pattern submitted, the entity uses, for both internal and external reporting purposes, a single gross profit-like subtotal for its aggregated lease activity. This subtotal includes income and expenses from both finance and operating leases as well as interest expense on financing arrangements. However, the TAD does not explain which features of that subtotal support the Committee's conclusion.

   We understand that other manufacturer-lessors may have similar operations involving the sale, finance lease and operating lease of their products. Such entities often assess operating performance using gross profit-like subtotals. However, the composition of those subtotals may differ significantly. Depending on the facts and circumstances, they may:

- exclude interest expense on liabilities used to fund the activities;
- include, in addition to income and expenses arising from lease activities, revenue and costs arising from outright sales under IFRS 15 and amounts recognised by a manufacturer or dealer lessor under paragraph 71 of IFRS 16;
- separately present results relating to outright sales, finance leases and operating leases; or
- incorporate combinations of these approaches.

The TAD does not explain whether, or how, such differences might affect the assessment of whether an entity has a specified main business activity.

3. ***Lack of clarity on what other factors, apart from a gross profit-like subtotal, may be relevant in assessing the entity's specified main business activities***

Our reading of paragraphs B33–B36 of IFRS 18, together with the Committee's March 2026 agenda decision *Assessment of a Specified Main Business Activity for the Purposes of the Separate Financial Statements of a Parent (IFRS 18)*, suggests that the indicators described in paragraphs B34–B36 provide evidence to support the assessment of specified main business activities, but do not necessarily determine it.

However, the TAD appears to be based almost entirely on the existence of a gross profit-like subtotal and does not explain whether and how other facts and circumstances were considered in reaching the conclusion in this fact pattern. Additional explanation would help entities understand how the existence and composition of a gross profit-like subtotal should be considered alongside broader facts and circumstances, including those described in the fact pattern, when applying IFRS 18.

Without such clarification, there is a risk that undue emphasis may be placed on the existence of a gross profit-like subtotal rather than on the underlying nature of an entity's business activities.

4. ***Broader question regarding the meaning of a business activity of providing financing to customers and its interaction with a specified main business activity of investing in assets***

The questions in the original submission and TAD highlight a broader conceptual question regarding the meaning of a business activity of providing financing to customers for the purposes of IFRS 18.

IFRS 18 does not define such an activity, nor does it identify the characteristics that distinguish a business activity of providing financing to customers from other business activities. Paragraph B32 of IFRS 18 provides examples of entities that might provide financing to customers as a main business activity, but those examples do not appear to establish broader principles for identifying such activities.

In this context, paragraph B32 specifically refers to finance leases rather than to leases in general. In addition, paragraph BC180 of IFRS 18 notes that entities which provide financing to customers as a main business activity focus on net interest income as a key measure of performance. Unlike finance lease activities and more traditional financing arrangements, operating lease activities do not generally give rise to a separately identifiable measure of net interest income. As such, it is unclear whether the IASB intended for operating lease activities to be viewed as providing financing to customers for the purposes of paragraph 49(b) of IFRS 18.

In the absence of greater clarity, there is a risk that the notion of providing financing to customers could be interpreted too broadly.

This issue is particularly important because the assessment affects, amongst other matters, the classification of interest expense on liabilities in the scope of paragraph 59(a) of IFRS 18. This may create an incentive for entities to characterise an activity as providing financing to customers (or the opposite) to achieve a particular classification outcome for interest expense, even if it does not faithfully reflect the nature of the entity's business activities.

The submission also raises questions regarding the interaction between specified main business activities. For example, IFRS 18 identifies investment property entities as examples of entities that might invest in assets as a main business activity. However, if operating lease activities are viewed broadly as providing financing to customers, it is unclear whether, and if so how, the same operating lease activity could simultaneously be considered a main business activity of investing in assets and a main business activity of providing financing to customers and which of these activities should take precedence. In particular, further explanation would be helpful as to how entities should distinguish between those specified main business activities when both assessments may be based on the same underlying property and related lease activity.