Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

5 February 2026

Bruce Mackenzie
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Bruce,

Tentative agenda decision – Assessment of a Specified Main Business Activity for the purposes of the Separate Financial Statements of a Parent (IFRS 18)

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, ethics and sustainability disclosures for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our views on this tentative agenda decision (TAD).

We appreciate the efforts of the IFRS Interpretations Committee (IC) in addressing the application of the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* when assessing a specified main business activity for the purposes of the separate financial statements of a parent. However, we have concerns regarding the analysis in the TAD, particularly the following statements:

'In those circumstances, concluding that investing in unconsolidated subsidiaries is not a main business activity for the parent would result in the parent not having any main business activity. The Committee observed that an outcome in which an entity has no main business activity would be inconsistent with the IASB's rationale underlying the requirements of the Standard.'

We consider that these statements may inadvertently impose a default classification outcome, which could unduly restrict management's ability to exercise judgement in determining the entity's main business activity. Our comments and recommendations are as follows.

Risk of creating a presumption

IFRS 18 does not specify whether all entities must have at least one main business activity, nor does it state that an entity with no main business activity would be inconsistent with the IASB's rationale underlying the requirements of IFRS 18. The IASB's rationale, as referred to in the TAD, is also unclear.

Without further clarification, the analysis in the TAD could be interpreted as creating a presumption that, in the absence of other substantive activities, investing in unconsolidated subsidiaries is automatically concluded as a main business activity for the purposes of the parent's separate financial statements. Based on this interpretation, the parent would classify income and expenses from its investments in unconsolidated

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話：(852) 2287 7228
Fax傳真：(852) 2865 6603
Website網址：www.hkicpa.org.hk
Email電郵：hkicpa@hkicpa.org.hk

subsidiaries in the operating category of its statement of profit or loss. This may inadvertently impose a default classification outcome. Under such an interpretation, any parent whose sole activity is investing in unconsolidated subsidiaries would automatically identify this as its main business activity, without considering the extent or nature of its activities in relation to those investments. Consequently, whether a parent is an active or a passive investor, the classification outcome would be the same. It is unclear whether this outcome reflects the IASB's intended application of IFRS 18.

In addition, the analysis may have wider implications for other fact patterns. It may imply that investing in unconsolidated subsidiaries can be identified as a main business activity *only* when the parent has no other business activities. As a result, a parent with more than one business activity (for example, investing in investment properties and financial assets) may be precluded from identifying investing in unconsolidated subsidiaries as a main business activity. Income and expenses from those subsidiaries would then be classified in the investing category in its statement of profit or loss. Such outcomes may not faithfully represent the parent's business model and may undermine the comparability of the financial statements.

Management's judgement in assessing main business activity

Paragraph B33 of IFRS 18 emphasizes that the assessment of specified main business activities is a matter of fact, rather than mere assertion. Entities are required to apply judgment and base the assessment on evidence. Given that IFRS Accounting Standards are principles-based, the application of judgement is critical to reflecting the specific facts and circumstances of the entity. Relying on the statements quoted above from the TAD as the primary basis for concluding that investing in unconsolidated subsidiaries constitutes a main business activity may unintentionally constrain management's ability to exercise judgement in making this assessment.

In the fact pattern, the parent does not use operating performance metrics, nor does it provide segmental information to its shareholders. Such circumstances, particularly in the absence of the factors described in paragraphs B34-B36 of IFRS 18, highlight the importance of applying judgement supported by relevant evidence, rather than defaulting to a prescribed outcome.

We also observe that the parent undertakes certain activities relating to its investments in subsidiaries, including making decisions on the management, acquisition and disposal of subsidiaries and distributing returns to shareholders. Applying paragraph B33 of IFRS 18, management should exercise judgement to assess whether these activities, in relation to investments in unconsolidated subsidiaries, constitute a main business activity.

Recommendation

In light of the above, we recommend that the IC adopt a more explicit approach in the analysis by highlighting paragraph B33 of IFRS 18. Specifically,

a) management should exercise judgement in determining whether investing in unconsolidated subsidiaries is a main business activity; and
b) in the absence of the factors set out in paragraphs B34-B36 of IFRS 18, management should exercise judgement and consider other relevant factors. Relevant factors for the fact pattern could include the business model of the parent, the existence of a management team responsible for investment decisions, and whether dividend income is the sole income stream of the parent.

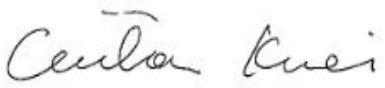
We also recommend that the IC clarify whether, based on facts and circumstances and the application of management's judgement, an entity could conclude that it has no main business activity. If such an outcome is considered unacceptable, the IC should explain the rationale.

Work undertaken by HKICPA in forming its views:
In response to this TAD, the HKICPA:

a) issued an Invitation to Comment on the TAD on 9 December 2025 to its members and other stakeholders;
b) sought input from its Disclosure Initiative Advisory Panel, which mainly comprises technical and industry experts from accounting firms; and
c) developed its views through its Financial Reporting Standards Committee, having reflected on its respondents' views. The Committee comprises preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact Katherine Leung (katherineleung@hkicpa.org.hk), Associate Director of the Standard Setting Department.

Sincerely,



Cecilia Kwei
Director of Standard Setting