Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Not-for-Profit Guidance on Income and Expense Categorisation	**Meeting:**	AASB August 2026 (M222)
Topic:	Specified main business activities	**Agenda Item:**	5.1
		Date:	12 August 2026
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Objective of this paper

1 To assist the development of the Exposure Draft, the objectives of this paper are for the Board to:

(a) **note** the requirements in AASB 18 and the IASB's rationale for identifying whether investing in assets or providing financing to customers constitutes a specified main business activity (SMBA) of an entity (Section 1);

(b) **consider** whether a charity can, in principle, invest in assets or provide financing as an SMBA (Section 2);

(c) **consider** in what circumstances an NFP entity might be considered to be investing in assets or providing financing to customers as an SMBA (Section 3); and

(d) **decide** the approach to take when developing the Exposure Draft, including whether to propose mandatory Australian application guidance and the matters that should be exposed for stakeholder comment (Sections 2 and 3).

2 The abbreviations noted in the Cover Memo apply to this paper.

Summary of staff recommendations

3 Staff recommend that the Board include in the Exposure Draft mandatory application guidance to assist NFP entities in assessing whether they have an SMBA. Staff recommend specifying that the preparation of separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities for internal management purposes may provide evidence that those activities are monitored separately by management, as contemplated by AASB 18.B35(b). Staff also recommend including examples of cases in which an NFP entity may have an SMBA, depending on the facts and circumstances.

Section 1: AASB 18 requirements and IASB's rationale regarding SMBA

AASB 18 requirements

4 AASB 18.49 and 50 require an entity to determine whether it has a main business activity of:

(a) investing in particular types of assets and, if so, to categorise related investing income and expenses as operating in the statement of profit or loss; and

(b) providing financing to customers and, if so, to categorise related financing income and expenses as operating in the statement of profit or loss.

5 AASB 18.49 and 50 are reproduced below, with relevant text highlighted in blue.

> **Entities with specified main business activities**
>
> 49 To classify income and expenses in the operating, investing and financing categories, an entity shall assess whether it has a specified main business activity – that is a main business activity of (see paragraphs B30–B41):
>
> (a) investing in particular types of assets, referred to hereafter as investing in assets (see paragraph 53); or
>
> (b) providing financing to customers.
>
> 50 Applying paragraphs 55–58 and 65–66, an entity with a specified main business activity classifies in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity.
>
> …
>
> 53 Except as required by paragraphs 55–58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:
>
> (a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43–B44);
>
> (b) cash and cash equivalents; and
>
> (c) other assets if they generate a return individually and largely independently of the entity's other resources (see paragraphs B45–B49).

6 AASB 18.B30–B37 provides guidance on how an entity assesses and identifies whether it has an SMBA. They are reproduced below, with relevant text highlighted in blue.

> **Assessment of specified main business activities**
>
> B30 Paragraph 49 requires an entity to assess whether it invests in assets or provides financing to customers as a main business activity. An entity may have more than one main business activity. For example, an entity that manufactures a product and also provides financing to customers may determine that both its manufacturing activity and customer-finance activity are main business activities. To classify income and expenses into the categories of operating, investing and financing as required by this Standard, an entity need only determine whether either of, or both, investing in assets and providing financing to customers are main business activities.
>
> B31 Examples of entities that might invest in assets as a main business activity include:
>
> (a) investment entities as defined by AASB 10 *Consolidated Financial Statements*;
>
> (b) investment property companies; and
>
> (c) insurers.

B32	Examples of entities that might provide financing to customers as a main business activity include: (a) banks and other lending institutions; (b) entities that provide financing to customers to enable those customers to buy the entity's products; and (c) lessors that provide financing to customers in finance leases.	
B33	Whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact and not merely an assertion. An entity shall use its judgement to assess whether investing in assets or providing financing to customers is a main business activity and that assessment shall be based on evidence.	
B34	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.	
B35	Evidence that subtotals similar to gross profit described in paragraph B123 are important indicators of operating performance includes using such subtotals to: (a) explain operating performance externally; or (b) assess or monitor operating performance internally.	
B36	Information about segments may provide evidence that investing in assets or providing financing to customers is a main business activity if an entity applies AASB 8 *Operating Segments*. Specifically: (a) if a reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity; and (b) if an operating segment comprises a single business activity, this indicates that the business activity might be a main business activity of the entity if the performance of the operating segment is an important indicator of the entity's operating performance as described in paragraph B34.	
B37	An entity shall assess whether investing in assets or providing financing to customers is a main business activity for the reporting entity as a whole. Accordingly, the assessment of whether investing in assets or providing financing to customers is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have different outcomes.	

7 AASB 18.B123 provides examples of subtotals similar to gross profit.

> *Subtotals similar to gross profit*
>
> B123 In accordance with paragraph 118(a), subtotals similar to gross profit are not management-defined performance measures. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:
>
> (a) net interest income;
>
> (b) net fee and commission income;
>
> (c) insurance service result;
>
> (d) net financial result (investment income minus insurance finance income and expenses); and
>
> (e) net rental income.

<u>IASB's rationale</u>

8 The IASB's starting point was that all income and expenses not classified in the investing, financing, discontinued operations and income tax categories should be included in the operating category. However, it recognised that for some entities, investing and financing activities are themselves core operations. The IASB noted the following views in the Basis for Conclusions to IFRS 18:

(a) For entities whose main business activity is investing in assets or providing financing to customers, the related returns (investment returns or net interest margin) are key indicators of operating performance. Excluding those items from operating income and expenses would not faithfully represent operating performance (paragraphs BC94–BC102).

(b) If investing is a main business activity, classifying investment returns in the investing category could result in an operating category consisting largely (or only) of expenses, which would not faithfully represent operating performance. The IASB considered the example of an investment property company. If rental income and fair value gains were excluded from operating profit, operating profit would not faithfully represent the entity's operations (paragraph BC145).

(c) Similarly, for entities providing financing to customers as a main business activity, the spread between interest income and interest expense is a primary performance metric; excluding those items from operating would undermine the operating profit subtotal. Classifying related funding costs in the financing category would not faithfully represent operating performance (paragraphs BC180–BC188).

Staff observation

9 Staff consider that the principle underpinning the income and expense categorisation requirements in AASB 18 – that the "operating profit or loss" subtotal should faithfully represent an entity's operations – is relevant to NFP entities. Accordingly, if such an entity invests in assets or provides financing to customers as a main business activity, the related income and expenses should be classified in the operating category.

10 In responding to ED 338, some stakeholders sought clarification from the Board on the two issues described in Sections 2 and 3 below.

Section 2: Whether a charity can, in principle, invest in assets or provide financing as an SMBA?

11 Some stakeholders noted the definition of a charity in Section 5 of the *Charities Act 2013* states that it must have **only charitable purposes that are for the public benefit**. They questioned whether a charity can, in principle, invest in assets or provide financing as a specified main business activity for the purposes of AASB 18.

Staff analysis

12 Feedback from stakeholders indicated that some charities invest in assets to generate returns that fund their charitable activities, or to provide financing to other entities as part of their charitable activities. In such circumstances, the investing and financing activities support, and are not detached from, the entity's charitable purposes and public benefit objective. Accordingly, staff consider that a charity or an NFP entity is not precluded, merely because it only has charitable purposes, from being considered as investing in assets or providing financing as a main business activity for the purposes of AASB 18.[1]

Approach in developing the Exposure Draft

13 If the Board agrees with the staff view described in paragraph 12, staff propose noting this view in the Basis for Conclusions as the Board's tentative view. Staff consider locating this view in the Basis for

1 This staff view is consistent with the IPSASB's preliminary views noted in paragraphs 4.20–4.22 of its Consultation Paper *Presentation of Financial Statements*, and paragraphs 87 and AG68 of the accompanying illustrative Exposure Draft.

Conclusions is appropriate because Issue 1 relates to views on the application of existing requirements, rather than guidance on how those requirements should be applied in practice.

Question for the Board

Q1: Do Board members agree with the staff view that a charity or an NFP entity is not precluded, merely because it only has charitable purposes, from being considered as investing in assets or providing financing as a main business activity for the purposes of AASB 18 and, if so, that this view should be communicated in the Basis for Conclusions as the Board's tentative view?

Section 3: In what circumstances an NFP entity might be considered to be investing in assets or providing financing to customers as an SMBA?

14 Stakeholders provided examples of circumstances in which there may be uncertainty as to whether an NFP entity has an SMBA for the purposes of AASB 18, including where the NFP entity:

(a) provides micro-finance loans for the purpose of delivering social benefits;

(b) does not provide any goods or services, but holds a portfolio of investments, the income from which is distributed as grants to other NFP entities;

(c) does not provide any goods or services, but holds investment properties for the purposes of renting them to the community as part of a social housing arrangement; and

(d) provides goods or services, while also providing financing or investing in assets as part of its operations.

Staff analysis

15 In responding to ED 338, some stakeholders commented there is a risk that similar NFP entities may classify income and expenses inconsistently due to differences in judgement exercised by entities and auditors. They commented that AASB 8 *Operating Segments* is referenced in AASB 18.B36 as guidance for assessing and identifying whether investing in assets or providing financing constitutes a main business activity. However, AASB 8 applies only to for-profit entities, and there is no equivalent pronouncement for NFP entities.

16 Although AASB 8 does not apply to NFP entities, some NFP entities may nevertheless prepare separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities for internal management purposes. Such information may indicate that management separately assesses or monitors the performance of those activities as part of assessing the entity's operating performance and, therefore, may be relevant when determining whether investing in assets or providing financing to customers constitutes a specified main business activity.

17 Staff considered whether, in the absence of an equivalent to AASB 8, the content in AASB 18 provides a sufficient basis for NFP entities to assess and identify whether investing in assets or providing financing to customers is a main business activity.

18 AASB 18.B33 states that whether investing in assets or providing financing to customers is a main business activity of the entity is a matter of fact. Entities are required to apply judgement and base that assessment on evidence. AASB 18.B34–B36 explain that evidence of a main business activity may include whether:

(a) the entity uses a particular subtotal as an important indicator of operating performance;

(b) the subtotal is similar to a gross profit subtotal as described in AASB 18.B123 (quoted in paragraph 7 above). Staff consider that an NFP entity might have a similar subtotal relating to investing or financing activities that support charitable activities; and

(c) the subtotal is used to explain operating performance externally **or** to assess or monitor operating performance internally. Accordingly, staff consider the preparation of separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities for internal management purposes may provide evidence that such activities are assessed or monitored as part of the entity's operating performance.

19 Staff consider these principles are capable of being applied by NFP entities. Accordingly, staff do not consider it necessary to add "Aus paragraphs" within the body of AASB 18. However, staff consider application guidance clarifying that information such as separate budgets, forecasts, performance reports or other disaggregated information may provide evidence of internal monitoring, as contemplated by AASB 18.B35(b), would assist NFP entities in applying the SMBA requirements consistently.

Approach in developing the Exposure Draft

20 Staff recommend proposing in the Exposure Draft mandatory application guidance, in an Australian Appendix to AASB 18, that would:

(a) specify that separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities may provide evidence that those activities are monitored by management in assessing operating performance of the entity; and

(b) include examples of circumstances raised by stakeholders in which an NFP entity may need to consider whether investing in assets or providing financing to customers constitutes a main business activity.

21 To assist Board members in considering the appropriateness and content of the proposed application guidance, draft text is presented in the box below to obtain the Board's views and suggestions.[2]

Not-for-profit entities with specified main business activities

E1 Paragraphs 49 and 50 [of AASB 18] require an entity to determine whether it has a main business activity of investing in particular types of assets or providing financing to customers. If so, income and expenses arising from those activities are classified in the operating category of the statement of profit or loss.

E2 Consistent with paragraphs B33–B36 [of AASB 18], evidence that a not-for-profit entity has a main business activity of investing in particular types of assets or providing financing to customers may include information prepared for either external reporting or internal management purposes. Such evidence may include whether the entity:

(a) uses measures of financial performance relating to those activities to explain operating performance externally, or to assess or monitor operating performance internally; and

2 Board members are not being asked to approve the drafting of the proposed application guidance at this meeting. Rather, staff are seeking feedback on the proposed content and direction of the guidance to inform the development of the Exposure Draft. Staff plan to present a draft Exposure Draft for the Board's consideration and approval at the October 2026 meeting.

> (b) prepares separate budgets, forecasts, performance reports or other disaggregated information for those activities for internal management purposes.
>
> E3 Not-for-profit entities may have a main business activity of investing in particular types of assets or providing financing to customers even when those activities are ultimately undertaken to achieve charitable purposes or public benefit objectives. Depending on the facts and circumstances, evidence that investing in particular types of assets or providing financing to customers is a main business activity may exist for an entity whose activities undertaken to further its objectives include, for example:
>
> (a) provides micro-finance loans for the purpose of delivering social benefits;
>
> (b) holds a portfolio of investments and distributes the investment returns as grants to other not-for-profit entities; or
>
> (c) holds investment properties that are rented to members of the community as part of a social housing arrangement.
>
> E4 Conducting one or more of the activities described in paragraph E3 would not, in themselves, necessarily mean that investing in particular types of assets or providing financing to customers is a main business activity. An entity applies judgement and considers all relevant facts and circumstances, including the significance of those activities to its overall operations and evidence in the nature of that described in paragraphs B33–B36 and E2.

22 Staff consider the proposed guidance appropriate because it would promote more consistent application of the SMBA requirements and support the faithful representation of operating performance. Stakeholders noted that some NFP entities may otherwise report significant operating deficits despite generating substantial investing income that is integral to their operations. Such outcomes would be inconsistent with the IASB's rationale for the SMBA requirements discussed in paragraph 8 above.

23 In relation to the examples noted in paragraph E3, staff acknowledge that examples can create a risk of unintended analogies. However, staff consider that the examples are useful because they illustrate circumstances raised by stakeholders and are accompanied by paragraph E4, which clarifies that the examples do not, in themselves, identify cases when an entity has an SMBA.[3]

24 Staff also recommend adding SMCs in the Exposure Draft to seek feedback from stakeholders on whether they:

(a) agree that the preparation of separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities for internal management purposes may provide evidence that those activities is monitored by management in assessing operating performance of the entity;

(b) consider the examples useful and appropriate;

(c) have identified any additional principles, indicators or guidance that they consider would be useful to support consistent application of the SMBA requirements; and

(d) have any significant concerns regarding the costs and benefits of applying the AASB 18 income and expenses categorisation requirements, including whether it would impose significant costs on NFP entities when assessing and determining whether they have an SMBA.

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3 AASB 18 paragraphs B31–B32 (quoted in paragraph 6 above) include examples of for-profit entities that may have an SMBA.

Alternative approach rejected by staff

25 Instead of proposing mandatory application guidance in the Exposure Draft, staff considered whether it would be more appropriate to note the content in draft paragraphs E2 and E3 only in the Basis for Conclusions as the Board's tentative observations on the application of the SMBA requirements in an NFP context and seek stakeholder feedback on those observations.

26 Staff do not recommend this approach. There may be some ambiguity about the status of proposed content for a Basis for Conclusions and whether it could ultimately become mandatory. Staff consider proposing application guidance would elicit more meaningful feedback than seeking comments on content for the Basis for Conclusions.

Questions for the Board

Q2: Do Board members agree with the staff recommendation to propose in the Exposure Draft mandatory application guidance in an Australian Appendix to AASB 18 to assist NFP entities in assessing whether investing in assets or providing financing to customers constitutes an SMBA?

Q3: If so, do Board members:

(a) agree with the staff view that the preparation of separate budgets, forecasts, performance reports or other disaggregated information relating to investing or financing activities for internal management purposes may provide evidence that those activities is monitored by management in assessing operating performance of the entity;

(b) have any comments or suggestions regarding the content of the draft application guidance, including whether any additional guidance or examples should be considered; and

(c) have any comments or suggestions regarding the proposed SMCs to be included in the Exposure Draft?