

HKFRS 18 NAVIGATOR



DEFINING WHAT YOU DO: DETERMINATION OF MAIN BUSINESS ACTIVITIES

APRIL 2026 ISSUE 3

In HKFRS 18 Navigator Issue 2, we discussed the new structure of the statement of profit or loss, including the general classification requirements for income and expenses for most entities. In this issue, we explore the specific classification requirements for entities with a specified main business activity (SMBA), the assessment of SMBA and the related practical implications.

WHAT IS A SPECIFIED MAIN BUSINESS ACTIVITY (SMBA)?

An entity has an SMBA if it has one or both of the following main business activities:

SMBA	Examples of entities
 Investing in particular types of assets (Investing in assets)	<ul style="list-style-type: none"> Investment entities as defined by HKFRS 10 <i>Consolidated Financial Statements</i> Investment property companies Insurers
 Providing financing to customers	<ul style="list-style-type: none"> Banks and other lending institutions Entities that provide financing to customers to enable those customers to buy the entity's products Lessors that provide financing to customers in finance leases

HOW TO DETERMINE THE MAIN BUSINESS ACTIVITY?

- Whether an entity has an SMBA is a matter of fact, not merely an assertion.
- The assessment requires judgement supported by evidence.
- The assessment is performed for the reporting entity as a whole; therefore, outcomes at the consolidated group level and individual subsidiary level may differ.
- The assessment is based on the facts at the time. Any change in the outcome is applied prospectively from the date of change and does not affect previous assessments.

Examples of evidence include:



Key indicator of operating performance:

Use of a specific subtotal similar to gross margin as an important indicator of operating performance for the entity's SMBA, as reflected in external communications or internal performance monitoring.



Segment information under HKFRS 8 *Operating Segments*:

- A reportable segment comprising a single business activity indicates that the activity is a main business activity of the entity.
- An operating segment comprising a single business activity may indicate a main business activity if the segment's performance is an important indicator of the entity's operating performance.

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IMPACT ON THE CLASSIFICATION OF SPECIFIED INCOME AND EXPENSES

HKFRS 18 requires an entity with an SMBA to classify in the operating category specific income and expenses that would otherwise be classified in the investing or financing category, so that these income and expenses form part of the entity's operating results.

INVESTING IN ASSETS

Specified asset	Other considerations	Classification of income and expenses	
		Entity without SMBA	Investing in assets as a main business activity
Cash and cash equivalents	-	Investing	Refer to diagram overleaf
Investments in associates, joint ventures and unconsolidated subsidiaries	Accounted for using the equity method		Investing
	Invested in as a main business activity and Not accounted for using the equity method		Operating
	Not invested in as a main business activity and Not accounted for using the equity method		Investing
Other assets that generate a return individually and largely independently of the entity's other resources	Forming part of the entity's main business activity		Operating
	Not forming part of the entity's main business activity	Investing	

PROVIDING FINANCING TO CUSTOMERS

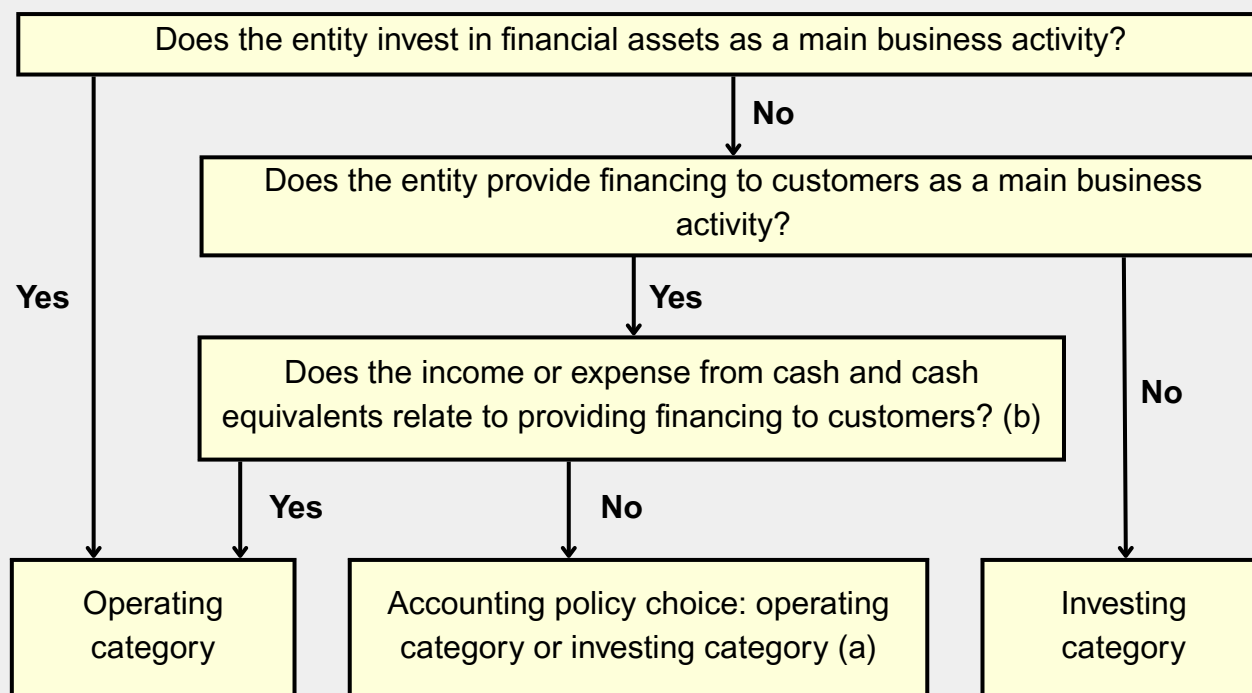
Specified asset/liability	Other considerations	Classification of income and expenses	
		Entity without SMBA	Providing financing to customers as a main business activity
Cash and cash equivalents	-	Investing	Refer to diagram overleaf
Liabilities that arise from transactions that involve only the raising of finance	Related to providing financing to customers	Financing	Operating
	Not related to providing financing to customers		Accounting policy choice: Operating or financing (a)
	Cannot distinguish between liabilities related to providing financing to customers and those that do not		Operating
Other liabilities	Interest income and expenses and income and expenses from changes in interest rates identified for the purpose of applying other HKFRS Accounting Standards		Financing
	Other income and expenses		Operating

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Classification of income and expenses from cash and cash equivalents



- (a) The accounting policy choice shall be consistent (where applicable) across both circumstances.
 (b) If an entity cannot distinguish which cash and cash equivalents relate to providing financing to customers, income and expenses from all cash and cash equivalents are classified in the operating category.



Illustrative examples

HKFRS 18 IE11–IE13 provides illustrative examples of statements of profit or loss for entities with an SMBA.

DISCLOSURES FOR ENTITIES WITH AN SMBA



An entity with an SMBA is required to disclose:

- The fact that the entity has a main business activity of investing in assets or providing financing to customers.
- If the outcome of the SMBA assessment changes:
 1. the fact and the date of that change; and
 2. for affected income and expenses, the amounts and classification before and after the change for the current and prior periods, unless impracticable. If impracticable, that fact is disclosed.

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KEY IMPLICATIONS FOR PREPARERS



The assessment of SMBA is entity-specific and judgmental. Conclusions should be consistent with how management manages and monitors the business, including internal reporting and segment information. Entities should ensure that the assessment and judgements applied are properly documented.



Entities should assess early whether they have an SMBA, as the resulting classification may lead to significant changes in operating profit and other mandatory subtotals, including comparative information.



Changes in classification may affect key performance indicators and management-defined performance measures. Entities should consider whether existing measures remain appropriate and whether additional explanations or disclosures are needed to help users understand the impact of the new presentation requirements.

LOOKING AHEAD: WHAT'S NEXT IN OUR SERIES

In the next issue, we will focus on management-defined performance measures (MPMs), including how to identify MPMs and what new disclosures are required under HKFRS 18.

Q1

1. Getting ready
2. Navigating the new structure

Q2

3. **Defining what you do: Determination of main business activities**
4. Management-defined Performance Measures
5. Insights for financial institutions

H2

6. A deep-dive into income, expenses & information grouping
7. Beyond the headlines: Changes to other HKFRS Accounting Standards
8. Navigating IFRS agenda decisions on HKFRS 18
9. From theory to practice

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