IFRS 18 EDUCATIONAL SESSION FOR FINANCIAL INSTITUTIONS

SUMMARY REPORT

11 JUNE 2024

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.

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Background

On 11 June 2024, EFRAG hosted an educational session in collaboration with the International Accounting Standards Board (IASB), the European Association of Co-operative Banks (EACB), the European Banking Federation (EBF), the European Savings and Retail Banking Group (ESBG) and Insurance Europe. The objective was to educate interested stakeholders on the new requirements introduced by IFRS 18 *Presentation and Disclosure in Financial Statements* ('the Standard' or 'IFRS 18'), issued by the IASB on 9 April 2024, and to discuss its implications for financial institutions' stakeholders in Europe. The session aimed to provide comprehensive insights into the new Standard, focusing on its application, benefits and challenges. The event featured presentations from IASB members and technical staff as well as contributions from financial institutions' representatives who shared their practical experiences with the Standard. EFRAG shared the workplan for the European endorsement process.

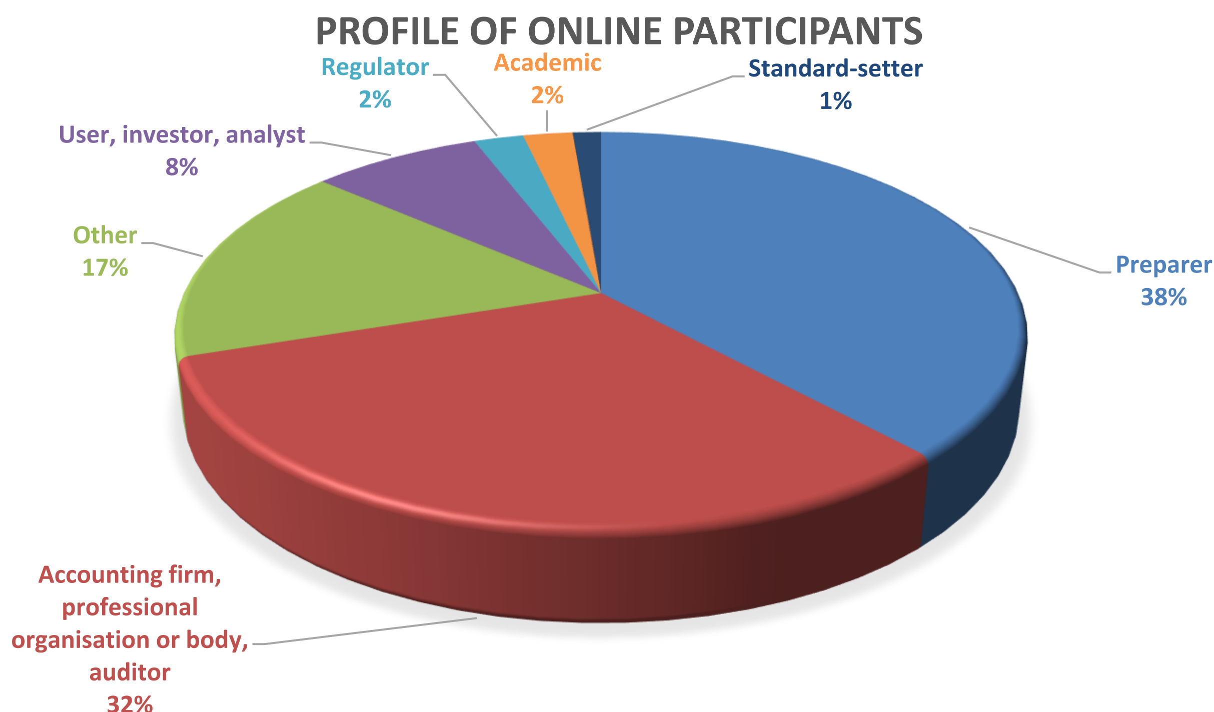
This report has been prepared to summarise the event's highlights for the convenience of European constituents. The program of the event, the speakers' biographies and the material presented during the event can be consulted here.

The event focused on the following four main topics:

- categories and subtotals
- Management-defined Performance Measures (MPMs)
- grouping – aggregation and disaggregation – of information
- limited changes to the cash flow statement, effective date and transition requirements.

For each of the topics, the IASB representatives introduced the new IFRS 18 requirements and the panellists participated in the discussion, providing their views and experience with the new requirements.

The audience had the opportunity to submit questions to the speakers (below reported as 'audience questions'). The profile of participants is summarised below based on the total 308 participants of the event.



Introduction and opening remarks

Nicklas Grip, Senior Vice President and Head of Regulatory Strategies at Group Finance at Svenska Handelsbanken and meeting moderator, welcomed the attendees, introduced the panellists and provided an overview of the agenda.

Ricardo Sánchez Fernández, Chair of the Accounting Committee at the European Banking Federation (EBF), noted that the Primary Financial Statements project had been key for the banking industry and the EBF welcomed the improvements from both preparers and users' perspectives. The EBF's views aligned with the feedback in EFRAG's comment letter, and the most discussed topics within the industry included: (a) the relief on MPMs because banks are highly-regulated entities and therefore have to present in their financial statements specific line items and subtotals as required by the regulators; (b) the definition of main business activity, which may be challenging, especially for conglomerates; (c) the additional disclosures that may be needed to present a clear distinction between equity-investments related to the core business and the others; and (d) the classification of interest expenses on leases and employee benefit plans outside operating profit. However, he stated that, overall, the flexibility provided by IFRS 18 would allow banks to present their performance as intended and that most of the industry concerns have been addressed in the final standard.

Massimo Tosoni, head of Group Accounting Policies Consolidation and Financial Reporting at Generali Group, welcomed the efforts by the IASB to have transparency and enhanced comparability and highlighted that stakeholders should expect some changes in addition to those recently introduced with the implementation of two other relevant standards for insurers, which are IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*. Areas of particular interest for the insurance industry were around (a) internally and externally disclosed management information for performance reporting; (b) potential changes to processes and systems due to new classification requirements; and (c) additional disclosures, such as those arising from the new definition of operating profit, which would come with additional costs for preparers. For the insurance industry, although IFRS 18 will allow entities to reflect their business model in the financial statements properly, it was important to pay attention to the interaction between IFRS 18 and IFRS 17, which includes some presentation requirements as well. Further, he stated that the main areas of concern for insurers are aligned with those aforementioned for the banking industry, for example the presentation of results of the equity-accounted associates and joint ventures and the practical challenges related to the disclosure of some operating expenses by nature when presenting by function.

Kathrin Schöne, EFRAG Project Director, noted that when the IASB issued new standards or amendments, the European Union (EU) aimed to endorse them before they came into force. The European Commission (EC) sent an endorsement advice request on 29 April 2024. According to the request, no additional topics compared to the usual endorsement criteria are requested to be assessed and no additional information has to be provided. EFRAG would assess the endorsement criteria over the coming months and would develop an impact assessment. The draft endorsement advice would be subject to public consultation. The expectation is that the final endorsement advice would be sent to the EC in Q2 2025. The EU endorsement process would then take several months, and final endorsement would be expected up to eight months later, i.e. by the end of 2025 or in Q1 2026 at the latest. When assessing the technical endorsement criteria and the European public good criteria, the aim would be to determine whether the proposals are acceptable in the European environment. The endorsement advice would be different to the comment letter on the Exposure Draft (the 'ED') by not requesting the optimal solution but assessing the extent to which the Standard is acceptable for Europe.

Florian Esterer, IASB member, stated that IFRS 18 is one of the most important changes to the statement of profit or loss since the inception of the IASB and it originated from users' request to have more comparability of financial performance. Indeed, IFRS 18 aims to balance increasing comparability in the statement of profit or loss and allowing companies to present themselves in the way that best reflects their business model. The new requirements had been grouped into three areas: (a) the new defined categories and subtotals having to ensure more consistency with how investors typically analyse the statement of profit or loss; (b) the new disclosure requirements on MPMs having to enable companies to disclose company-specific measures; and (c) the enhancements to the guidance on how to group information.

IFRS 18 has an effective date of 1 January 2027 which should allow for a sufficiently long transition period, although there would be an option to apply the Standard earlier.

Categories and subtotals

IASB presentation

Roanne Hasegawa, IASB Technical Staff, presented the three new defined categories introduced by IFRS 18 to provide a consistent structure for the statement of profit or loss – operating, investing and financing – and the two new required subtotals – operating profit and profit before financing and income taxes. In particular, she emphasised that: (a) the operating category will be the default category and the operating profit subtotal will provide a complete picture of a company's operations for the period; (b) the investing category will include, among others, income and expenses from investments accounted for using the equity method, cash and cash equivalents and other investments which investors analyse separately from a company's operations; (c) the financing category will include income and expenses from liabilities that arise from transactions that involve only the raising of finance and interest expense and the effects of changes in interest rates from other liabilities; and (d) entities have to apply judgment to determine whether they provide financing to customers or invest in assets as a main business activity because IFRS 18 will require them to classify in the operating category some specific income and expenses that would otherwise be classified in the investing or financing categories.

Florian Esterer emphasised that although the IASB acknowledged that associates, joint ventures and non-consolidated subsidiaries accounted for using the equity method could relate to the entity's main business activities, the IASB decided to classify income and expenses arising from those investments below operating profit. In the ED the IASB proposed to require a company to distinguish between integral and non-integral associates and joint ventures. However, the feedback indicated that it would be difficult for companies to make a clear distinction between what would be integral versus non-integral. The IASB decided to require classification outside of operating profit because investors apply a different methodology to such investments since they do not have a revenue contribution, are not controlled by the company and are a post-tax and post financing number. To help communicate the operating profit performance better, a company would present an additional subtotal below the operating profit (i.e. operating profit and all income and expenses from equity accounted investments) when it provides a useful structured summary. At transition, IFRS 18 permits an eligible company to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures,* to change the measurement method of an associate or joint venture from the equity method to fair value through profit or loss and to classify the income and expenses from such investments in the operating category when they are investments as a main business activity.

Furthermore, **Nick Barlow**, IASB Technical Staff, presented the additional guidance and decision tree provided in IFRS 18 in relation to the classification of gains and losses from derivatives, from hybrid contracts with host liabilities and from foreign exchange differences.

Hagit Keren, IASB member, stated that although there will be costs associated with the changes introduced by IFRS 18 both in terms of processes or internal communications and how companies will communicate with investors, in the IASB's view the benefits outweigh the costs. Further, IFRS 18 will provide a focal point for investors to start their analysis and improve communications between companies and investors.

Experience and practical insights from the panellists

Lamie Wong, member of the Accounting Policy Department at Allianz Group, stated that requiring classification in the investing category of income and expenses on investments in associates and joint ventures accounted for using the equity method was not optimal for the insurance industry. In addition, some entities would not necessarily want to use the option to change the accounting method to fair value through profit or loss (FVTPL) for accounting mismatches and would only want to do so for contracts with participating discretionary features. She stated that her organisation would have preferred presenting a separate line item within the operating category.

Massimo Tosoni added that another area of concern is the classification of interest expenses related to IAS 19 *Employee Benefits* and IFRS 16 *Leases* in the financing category, which is a change compared to the current insurers practice, as these expenses are normally classified in the operating category. In particular, he noted that in accordance with IFRS 17 part of these pension or leasing costs are attributed to the insurance contract and represented as part of the cash flows to fulfil the contract, and therefore these costs may be part of the projections and included in the insurance service costs within the operating category. However, considering that IFRS 18 would require the interest expense to be stripped out for their inclusion in the financing category, in his view further investigation into that area would be needed.

Anna Vidal, Head of Accounting Policies and the Consolidation Department at CaixaBank Group, stated that, overall, the IASB had reached the right balance on many topics, but some concerns had not been addressed. Although she welcomed the specific requirements for entities with specified main business activities to classify in the operating category some of the income and expenses that otherwise would have been classified within the investing or financing categories, she noted that the presentation in the statement of profit or loss might be challenging, especially for conglomerates. Indeed, she noted that there is diversity in how financial conglomerates prepared and presented their statements of profit or loss after the recent first-time adoption of IFRS 9 and IFRS 17, and she questioned whether IFRS 18 would improve such a comparability. She highlighted that there is uncertainty around how to present different main business activities, such as banking and insurance activities, at a stand-alone and consolidated level. For example, in the context of a group where a subsidiary only provides financing to customers and another subsidiary only invests in assets as its main business activity, it might not be clear whether, at a consolidated level, the funding that the insurance business received from external providers could be presented within the operating category. Clarity was also sought on how to assess which assets of each business could not be classified in the operating category. It would be helpful to understand the cases in which banks were expected to conclude, on a stand-alone basis, that they only had one main activity.

Martin Svitek, senior expert in the Group Accounting department at Erste Group, detailed that his organisation is a bank and not a financial conglomerate which invests and provides financing to customers as its main business activities; therefore, almost all of its income and expenses would be classified in the operating category, leading to an operating profit subtotal usually very close to profit or loss. In addition, as his organisation has minor investments in associates and joint ventures and no relevant interest expenses on pension and leases, he questioned whether requiring a bank to present operating profit subtotal would provide relevant information. In his view, it would be preferable to avoid its presentation and to instead disclose operating profit in the notes. However, he acknowledged that this subtotal would provide added value for other organisations. Finally, given that for his organisation almost all income and expenses will be classified in the operating category, the guidance for classifying income and expenses on derivatives for hybrid contracts would be easy to apply as well.

Nicklas Grip added that his organisation's sole corporate goal is return on equity based on operating profit, and requirement to present interest income or expense on pensions and leases outside the 'operating profit' would create a tension and possible need to introduce an Alternative Performance Measure (APM) to maintain the present definition of operating profit.

Ricardo Sánchez Fernández echoed previous panellists' comments and emphasised that it is common for banks to have joint ventures with other service providers, such as insurers, with the aim of finding a more efficient structure to deliver services to customers without the bank having to build the needed infrastructure itself. Hence, such transactions are considered to be part of operating profit. However, the new classification in the investing category set by IFRS 18 for income and expenses arising from these equity-accounted investments, as well as for interests on leases and pension outside the net interest income, would imply additional disclosure through MPMs to explain to the market why the operating profit had moved extensively. Finally, he noted that banking institutions could have other significant business activities, such as those related to insurance, and that additional guidance would likely be needed for how to decide which was the main business activity and the consequent impact on operating profit.

Florian Esterer explained that the reason for requiring income and expenses from equity-accounted associates and joint ventures to be classified below operating profit was not the nature of these investments but the measurement model itself. Indeed, investors had emphasised that equity-accounted investments are treated differently from those fully consolidated or measured at fair value, which conversely may be classified within the operating category. Regarding the new definition of operating profit, the IASB's intent was to improve comparability so that, when an investor looks at the statement of profit or loss, the operating profit will be comparable across all entities.

Hagit Keren noted, regarding the interest component of pension liabilities and lease liabilities classified in the financing category, that it was understandable that banks and insurers perceived that component as part of the operating category, but the IASB had to consider the final outcome and whether complexity would be added by accommodating the different needs of different industries. There had been many decisions to accommodate insurers' and banks' needs, including the addition of the notion of a main business activity. However, she noted that IFRS 18 will not change recognition and measurement requirements in other IFRS Accounting Standards such as IFRS 17, which requires the inclusion of different components in the fulfilment cashflows. She acknowledged that classifying some items in the financing category may be disappointing for insurers but that, to the extent it was material, MPMs could be used to convey management's view of performance.

Q&A session from the audience

Audience question: 'Where should discontinued operations be classified in the new statement of profit or loss?'

Roanne Hasegawa replied that, similarly to how they are presented today, discontinued operations will be a separate category in the bottom of the statement of profit or loss. The Illustrative Examples accompanying IFRS 18 include an illustration of a statement of profit or loss with such a category.

Audience question: 'Could there be differences between the FINREP report and the new statement of profit or loss? If so, how should that be resolved?'

Ricardo Sánchez Fernández stated that IFRS Accounting Standards are the basis of preparation for the FINREP and that there are specific classification requirements for non-IFRS preparers. Therefore, in his view there is not an immediate need to change the supervisory reporting from an accounting perspective. In some jurisdictions, regulators had specific formats, labels and subtotals for primary financial statements that would have to be changed for IFRS preparers. Changes to the FINREP would be based on the assessment of the European Banking Authority (EBA), but he did not see that occurring immediately because most of the supervisory analysis and metrics were based on current FINREP standards. Changes in FINREP would trigger changes in supervisory analysis and metrics and would likely lose historical comparability.

Audience question: ‘Because an entity could have several main business activities, for example a financial conglomerate where a bank owned a large insurance business, how should income and expenses arising from different main business activities be reflected in the different categories of the statement of profit or loss?’

Roanne Hasegawa stated that the assessment of the entity’s main business activities is entity-specific and that if an entity concludes that both activities are main business activities then both would be reflected in the operating category. Further, an entity should assess how to present line items in primary financial statements, which would provide the most useful structured summary of the entity’s assets, liabilities, equity, income, expenses and cash flows. She noted that in IFRS 18 there are illustrative examples covering banks and insurers. There is no illustrative example for a bank-insurer, but a company would give consideration to these examples when determining which line items and additional subtotals to present that provide a useful structured summary of its income and expenses.

In terms of assessing which assets should be in the operating category versus those presented in the investing category, the individual asset was the unit of account, but entities could perform the assessment for groups of assets with similar characteristics. For example, all investment properties could be assessed together.

Audience question: ‘In which section should the de-consolidation result due to the sale of a subsidiary be classified?’

Roanne Hasegawa replied that generally it would be reflected in the operating category. However, if a subsidiary only contained assets related to the investing category, the gain or loss on de-consolidation of this subsidiary would be in the investing category.

Audience question: ‘Should all results from associates and joint ventures at FVTPL go in the operating category? IFRS 18 seems to only allow for those integral to the main business activity.’

Roanne Hasegawa replied that all equity-accounted investments will be classified in the investing category and that these are not subjected to any assessment of main business activities. If an entity is using cost or fair value applying IAS 27 *Separate Financial Statements* and the FVTPL is applying paragraphs 18 and 19 of IAS 28, these investments would be subject to the assessment of whether they are investments which an entity invests in as a main business activity. Entities that are eligible to apply paragraphs 18 and 19 of IAS 28 are venture capital organisations, mutual funds, investment-linked insurance funds and similar entities. Generally. for such entities we would expect them to conclude that they are investments as a main business activity.

Florian Esterer emphasised that the differentiation was the measurement method.

Management-defined Performance Measures (MPMs)

IASB presentation

Nick Barlow presented the new requirements about MPMs both in terms of definition and disclosures to be provided in the notes. Further, he presented an example illustrating how MPMs might be reconciled to the most comparable total or subtotal presented in the statement of profit or loss, including non-controlling interest ('NCI') and income tax effects calculated for each reconciling item.

Hagit Keren highlighted that the MPMs requirements are leveraging on the existing information with clearer rules for disclosing adjustments; thus, they will enhance transparency and increase users' understanding of MPMs and how they relate to the measures defined by IFRS Accounting Standards.

Experience and practical insights from the panellists

Lamie Wong very much welcomed the new disclosure requirements on MPMs as well as the cost mitigations provided by IFRS 18 in this regard, such as the simplified approach for calculating the income tax effects on each reconciling item. However, she noted that, especially where there are complex shareholders' structures, there could be implementation challenges with calculating the effects of non-controlling interests (NCIs) for which simplifications have not been provided.

Martin Svitek noted that his organisation had some reservations about the NCIs and income tax effect disclosures for each reconciling line item because users had never asked for such information. However, he acknowledged users' request for such information to the IASB. The simplifications introduced compared to the ED were appreciated, including being able to calculate the tax effects by multiplying the reconciling line item at the statutory tax rate of the jurisdiction. However, no simplification was provided for NCIs, which for his organisation meant making adjustments to its consolidation system.

Anna Vidal stated that her group had performed a high-level review of the KPIs disclosed in its public communications for the previous year-end, and it had identified less than ten MPMs. One concern was that users could assume that the identified MPMs were the most relevant metrics for explaining the performance of the business, so in the notes it would be explained that those MPMs are those that met the IFRS 18 definition and that, therefore, they may not provide a complete picture of the group performance. Further, she noted that in her organisation there had been uncertainty about whether, when defining income from services, fee and commission income and expenses together with the insurance service results, those subtotals would meet the MPM definition and, if they did, whether it would be necessary to disclose the income tax and NCI effects.

Ricardo Sánchez Fernández noted that when banks present a specific metric, they should disclose how it is calculated, and IFRS 18 provides a clear link between the MPMs and the primary financial statement. One concern for banks had been that in most jurisdictions the regulator requires a specific format for the primary financial statements, which includes additional totals, subtotals or disclosures. In this respect, the possibility to rebut the presumption that some subtotals are MPMs was very welcomed. He expected that in most jurisdictions' regulators would carry out a mapping between the primary financial statement structured in accordance with IFRS 18 and the existing regulatory formats (including supervisory reporting FINREP). However, as regulators would only commence this process once the Standard is endorsed, in his view a fast endorsement process would be needed.

Florian Esterer stated that the purpose of the tax effect and the effect on NCI is to give investors the information they need to better understand the individual impacts of adjusting items because investors have said that they want to be able to evaluate a measure by assessing the impacts of including or excluding the individual adjusting items and to assess the impact on a per-share basis, which requires including the effects of tax and NCI. Further, he noted that NCI effects may vary greatly between different adjusting items depending on the profitability of the specific subsidiaries.

Hagit Keren clarified that the fact that a subtotal appeared in the statement of profit or loss does not exempt it from being an MPM. All of the MPM recognition requirements had to be checked to determine whether the subtotal meets the definition of an MPM. In addition, she noted that IFRS 18 includes a list of specified subtotals that were commonly used to provide useful information and that they are the only ones automatically exempted from being MPMs. All measures that meet the MPM definition have to be fully disclosed.

Q&A session from the audience

Audience question: 'Is there a need to make changes to operating segment information in accordance with IFRS 8 *Operating Segments* due to the new requirements introduced by IFRS 18?'

Nick Barlow replied that IFRS 18 provides some additional guidance as some measures under IFRS 8 could meet the definition of MPM under IFRS 18, and therefore, there could be an overlap. However, even if it was the case, IFRS 18 would require all the disclosures about MPMs to be provided in a single note, either together with the other operating segment information – but clearly distinguished from the latter – or in a separate note disclosing all MPMs.

Grouping – aggregation and disaggregation – of information

IASB presentation

Juliane-Rebecca Upmeier, IASB Technical Staff, presented the enhanced guidance on grouping of information introduced by IFRS 18, which aims to provide a useful structured summary of an entity's assets, liabilities and equity, income and expenses, and cashflows. Further, she explained that entities that present one or more operating expense line items by function in the statement of profit or loss shall disclose the amounts of specified expenses by nature included in each line item presented in the statement of profit or loss within the operating category. If the amounts disclosed are included in the carrying amount of an asset (rather than expensed in the period), an entity is required to state that fact and to give a qualitative explanation of the assets involved.

Hagit Keren stated that these requirements will provide a full package of information for entities to perform their analyses and to provide useful information. In addition, she emphasised that, in relation to the disclosure of operating expenses by nature when presenting one or more line items in the statement of profit or loss by function, the IASB reached a compromise to balance costs for preparers and benefits for users, limiting such additional disclosures to only five operating expenses and allowing entities to disclose cost rather than expense amounts.

Experience and practical insights from the panellists

Massimo Tosoni emphasised that for the insurance industry disclosure of operating expenses by nature is one area of complexity in the Standard. Although there was already a requirement in IAS 1 *Presentation of Financial Statements* to disclose expenses by nature in the notes, the new requirement in IFRS 18 will require an entity to disclose the amount of specified nature expenses included in each line item in the operating category of the statement of profit or loss. Considering that there had already been significant changes in the cost allocation rules due to the implementation of IFRS 17, which requires a different definition compared to previous reporting on how to allocate overheads to the contracts, the cashflow and other operating expenses if they were not part of the service, such a new requirement in IFRS 18 will be costly and will increase complexity. Therefore, insurers should invest some time in advance in implementing this requirement to ensure quality and consistency in the information provided when applying IFRS 18.

Lamie Wong noted that one welcome change from the ED is that a mixed presentation is permitted without too much additional disclosure of expenses by nature. However, the five specified expenses would still pose some challenges, and she asked why the given five had been chosen.

Juliane-Rebecca Upmeier replied that the aim had been to find a cost-benefit balance for preparers and users. Depreciation, amortisation and employee benefits are likely to be included in more than one function line item in the statement of profit or loss, and users said that having disaggregated information about these expenses was generally useful for understanding a company's business performance – regardless of industry or jurisdiction. Impairment losses of non-financial assets and write-downs of inventories could also be included in more than one line item. Even if they were only included in a single line item, disclosing them in a single note with the other nature expenses would make the information more accessible for users. Adding more nature expenses to the disclosure requirement would have upset the cost-benefit balance.

Nick Barlow added that there had been a period of targeted outreach on the proposals, and one question for users had been whether any other nature expenses should be added to the specific disclosure requirement. However, there was no consensus on what nature expenses (other than those specified) should be added. Rather, the additional nature expenses mentioned by users were entity- or industry-specific expenses.

Q&A session from the audience

Audience question: 'If the statement of profit or loss is presented by nature but there are some expenses by function, is there a need to apply these additional disclosure requirements?'

Juliane-Rebecca Upmeier replied that the specific disclosure requirement for specified expenses by nature applied whenever there was at least one line item that is considered a function line item. In the suggested example, the entity is presenting some expenses by nature and other expenses by function (a mixed presentation), which would trigger the specific disclosure requirement and there would have to be a breakdown of the specified operating expenses for all the line items presented in the operating category.

Audience question: 'Is it possible to disaggregate a line item required to be presented by IFRS Accounting Standards? If so, can one of the disaggregated items be aggregated with another item under a different label?'

Juliane-Rebecca Upmeier stated that the requirements in IFRS 18 do not change the recognition and measurement requirements in other IFRS Accounting Standards. The principles of aggregation and disaggregation apply to both the primary financial statements and the notes. In general, an entity would assess whether further disaggregating specific line items in the statement of profit or loss would provide a useful structured summary of the entity's income and expenses.

Hagit Keren warned against confusing disaggregation with decomposing line items. The aggregation and disaggregation requirements do not override requirements in other IFRS Accounting Standards that specify what a single line item should comprise.

Audience question: 'In the disclosure of operating expenses by nature, should the net interest on defined liabilities be included in the notes or should the notes only include employee benefits presented in the operating category?'

Roanne Hasegawa replied that IFRS 18 requires to disclose the amount of employee benefits included in the operating category, so any amount included in the financing category does not have to be included in such a disclosure. However, an entity is required to disclose the total amount of employee benefits, which include those recognised in accordance with IAS 19 and IFRS 2 *Share-based Payment*, and to provide a list of any line items outside the operating category that include amounts relating to that total.

Audience question: 'Will preparers have the option to present further subtotals within the designated categories to better reflect the specifics of their business model?'

Roanne Hasegawa referred to the example on slide 15 and noted that gross profit is an additional subtotal that is presented in this example because it provides a useful structured summary, but gross profit is not explicitly required by IFRS 18. She also referred to slide 22, which includes examples with insurance service result and net financial result as additional subtotals for an insurer and net interest income and net fee and commission income for a bank. If the subtotals fit within the structure of the statement of profit or loss and provide a useful structured summary, they would need to be presented.

Audience question: 'Does paragraph 103 of IFRS 18 (items to be presented in the statement of financial position or disclosed in the notes) have implications for the next amendments of IAS 38 *Intangible Assets*?'

Juliane-Rebecca Upmeier replied that the IASB had decided to add a requirement to present goodwill separately because its characteristics are sufficiently dissimilar to those of other intangible assets. Indeed, goodwill is an unidentifiable asset, is measured only as a residual and cannot be measured directly.

Audience question: 'Does the requirement in paragraph 104 of IFRS 18 (the requirement to present in the statement of financial position non-controlling interests and issued capital and reserves attributable to owners of the parent) result in the elimination of NCIs within equity?'

Roanne Hasegawa stated that there are some requirements that always have to be presented because they provide a useful structured summary, and those are related to the structure of the individual primary financial statements. One item that the useful structured summary concept cannot be used to override is the requirement to present amounts attributable to the owners of the parent and NCIs. They are still required to be presented because they are part of the defined structure of the balance sheet.

Limited changes to the cash flow statement, effective date and transition requirements

IASB presentation

Nick Barlow provided an overview of the limited changes made to the statement of cash flows, including the new mandatory starting point for reconciling cash flows from operating activities and the specific requirements related to the classification of interest and dividends paid and received. These changes aim to improve comparability. He also highlighted that the effective date is for periods beginning on or after 1 January 2027, with early adoption permitted. IFRS 18 will require retrospective application, including a reconciliation from the current reporting framework (i.e. IAS 1) to the new requirements of IFRS 18 in both interim and annual financial statements for the initial adoption year.

Experience and practical insights from the panellists

Anna Vidal stated that the effective date would allow enough time for entities to be prepared for the implementation of IFRS 18. However, as banking and insurance businesses are highly regulated, they could face more complex situations. Having the views of the local regulators and supervisors as soon as possible would make the necessary changes easier to implement. In addition, she noted that it is important to have similar structures for the separate and consolidated financial statements. The difficulty of implementation could vary based on how each entity understands the requirements in the Standard. Her group will provide two years of comparative information, so it is essential to have begun preparing for the implementation of the Standard to meet the required deadlines.

Ricardo Sánchez Fernández agreed that the implementation of the Standard would be affected by local regulators, so he asked EFRAG to speed up the endorsement process as much as it could.

Massimo Tosoni added that for the insurance industry the format for the statement of profit or loss is often fragmented, as regulators in some jurisdictions mandate specific formats, which would create additional issues for certain preparers. 1 January 2027 is not particularly far away given the comparatives that have to be restated and the role of local regulators. On transition, he emphasised that to alleviate the equity-accounted investments issue IFRS 18 allows eligible entities to change the measurement method by applying the fair value option of paragraph 18 of IAS 28 at transition. Finally, he asked about the current IASB plan for reviewing the cash flow statement.

Florian Esterer accepted that for banks and insurers there may be difficulties with using the cash flow statement. IAS 7 *Statement of Cash Flows* is an old standard and as part of the last agenda consultation the IASB had been tasked with starting a cash flow project. One topic that would be discussed is whether to have a separate cash flow statement for financial institutions.

Kathrin Schöne added that EFRAG is working on a discussion paper on cash flow reporting that it expects to publish in the autumn of 2024.

Q&A session from the audience

Audience question: 'Why was a harsh stance taken on the placement of dividends even though dividends could be received for various purposes?'

Nick Barlow suggested that there were parallels with the reasoning behind the requirements for associates and joint ventures. The IASB recognised that there may be different purposes, but investors face similar challenges in being able to find the relevant information and to compare entities. The IASB had given precedence to having a single location for the cash flows to make it easier to find and compare.

Audience question: 'Is there any change to the IAS 1 option to disregard the disclosure of immaterial items? If there were immaterial items outside the operating category, could they be moved into the operating category?'

Roanne Hasegawa replied that there was no change and IFRS Accounting Standards do not require the presentation or disclosure of immaterial items.

Audience question: 'Has the IASB considered connectivity between MPMs under IFRS 18 and the revenue-based metrics in IFRS S1 and S2?'

Florian Esterer emphasised that there had not been any S1 or S2 disclosures yet, so there is a need to wait to see what will happen. However, the IASB works closely with the ISSB to ensure general alignment among the different standards. There was a general expectation that most of the key metrics to be disclosed under S1 would not be financial statement line items except for some potential overlap with paragraph 29(d) of S1, which requires an entity to talk about the impact on the entity's financial position.

Audience question: 'If the results from an entity's associates are not significant, is there a need to show them separately?'

Roanne Hasegawa replied that they would be presented separately if it is necessary to provide a useful structured summary. If it is not necessary, then there is not a need for separate presentation, but if the amount is material, then it would have to be disclosed in the notes.

Audience question: 'What are the biggest efforts expected from insurers and banks when implementing IFRS 18?'

Ricardo Sánchez Fernández stated that in his view the biggest issue would be 'juggling' IFRS 18 with the different requirements from different jurisdictions, which could impact the content of the supervisory report as well as the main structure of the entity's primary financial statement.

Lamie Wong added that IFRS 18 could imply, for example, changes in the chart of accounts. Thus, impacted entities will have to reconsider their internal processes on time. Finally, she noted that her preference would be having the same effective date around the world.

Main takeaways and closing of the event

Kathrin Schöne highlighted that there had previously been discussions at the EFRAG Financial Reporting Board about whether there were any blocking factors for endorsement. The critical issues discussed were not seen as blocking factors for an endorsement. However, the critical points discussed, as well the ones raised during the current meeting, would be addressed in the endorsement advice. EFRAG appreciated the need for the endorsement process to be completed as quickly as possible and would assess the endorsement criteria and issue its draft endorsement advice for public consultation within the year.

Furthermore, she summarised the main discussion points related to the categories and subtotals topic, including: (a) the presentation of the results from equity-accounted associates and joint ventures in the investing category, though the IASB had provided a subtotal as mitigation; (b) the classification of interest expenses on leases and pensions in the financing category; (c) the entity assessment of its main business activity, which may be challenging for conglomerates; and (d) the challenges in the classification of income and expenses on derivatives and hybrid contracts. She highlighted the decision by the IASB to have a principle-based approach and not to have industry-specific standard-setting as well as the effort of the IASB to explain the approach by providing illustrative examples.

In relation to MPMs, although overall the new requirements are considered to be a good compromise, some application challenges have been noted in relation to the NCI reconciliation. However, the simplifications for the income tax effect of line items in the reconciliation and the rebuttable presumption have been appreciated. Finally, it has been noted that the reaction from local regulators will be critical for banks.

Regarding aggregation and disaggregation principles, the insurance industry noted potential issues with the disclosure by nature when presenting by function since they have to present certain items by nature under IFRS 17. However, the additional guidance was appreciated. Finally, panellists highlighted that the transition should start as soon as possible to allow for processes to be adapted, especially for those preparers that present two years of comparatives.

Nicklas Grip thanked the presenters, panellists and attendees. He emphasised the opportunity it presented for stakeholders to interact with the IASB and emphasised that the IASB had been listening given the changes it had made since the ED. He closed the meeting.