

# IFRS 18

## Presentation and Disclosure in Financial Statements

EFRAG FR TEG and USER PANEL

educational session

14 May 2024



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## OBJECTIVES OF THIS SESSION

The objectives of this session are to:

- Provide EFRAG FR TEG and EFRAG User panel with an **overview of the outcome of the project (educational session by the IASB)**;
- Seek EFRAG User Panel members' views about the **overall assessment** of the usefulness of the new requirements included in IFRS 18; and
- To receive a first indication on critical points for the assessment of the respective endorsement criteria.

The session intends to kick off the European endorsement process.



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## OVERVIEW

1. PRESENTATION OF IFRS 18 STANDARD BY THE IASB
2. ENDORSEMENT CONSIDERATIONS
3. LIST OF TOPICS RAISED BY THE EFRAG FR TEG AND USER PANEL IN THE PAST



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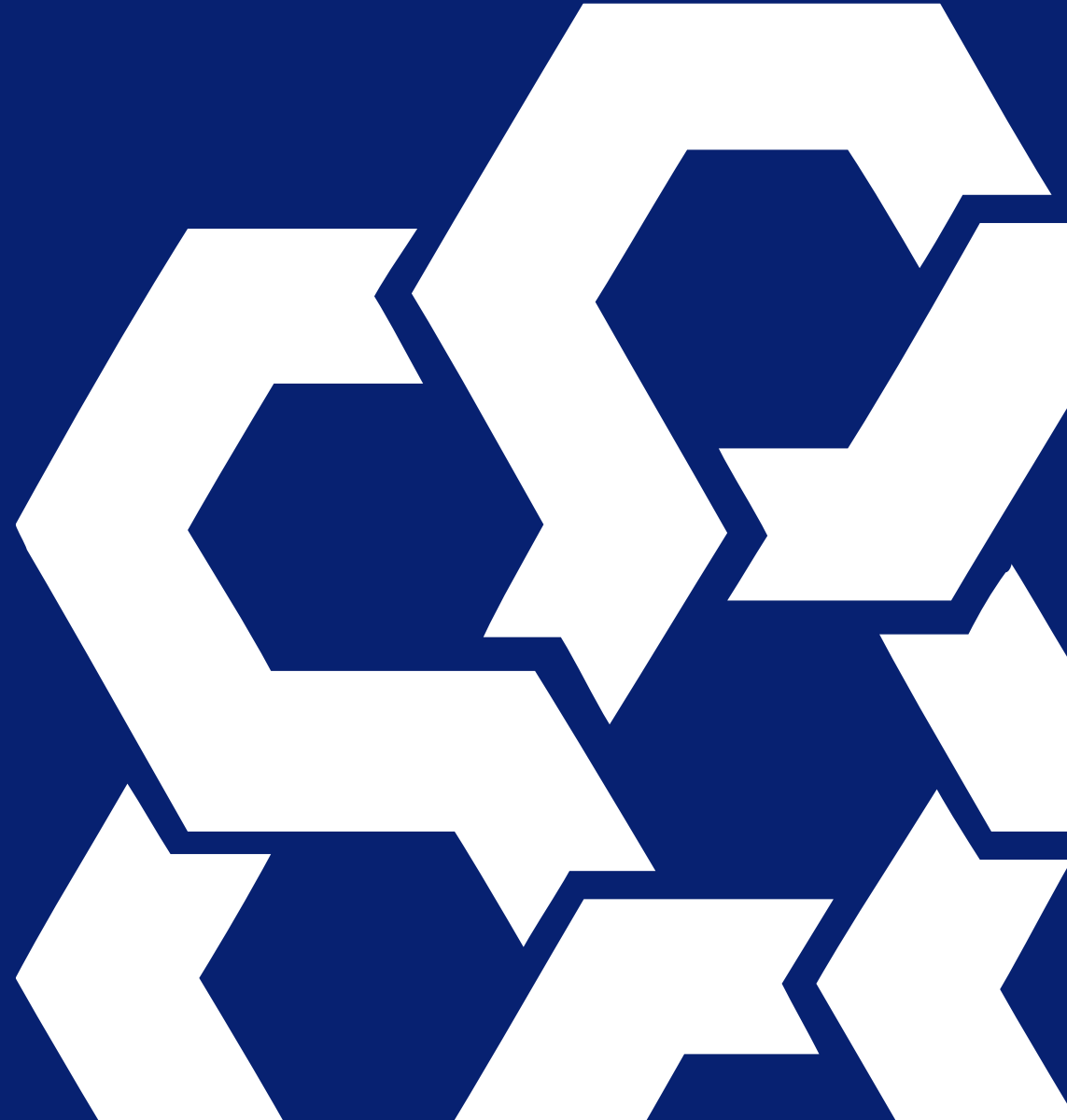
# Primary Financial Statements

Nick Anderson, IASB Member  
Roanne Hasegawa, IASB Technical Staff  
Juliane-Rebecca Upmeier, IASB Technical Staff  
Nick Barlow, IASB Technical Staff

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# Project Overview



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## Helicopter view

### **New IFRS Accounting Standard to improve reporting of financial performance**

Responds to investors' demand for better information about companies' financial performance



Improves how information is communicated in the financial statements



Gives investors a better basis for analysing and comparing companies' performance

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## IFRS 18 – the new requirements



New required subtotals in statement of profit or loss, including ‘operating profit’



Disclosures about management-defined performance measures (MPMs)



Enhanced requirements on grouping of information (aggregation and disaggregation)

### **Better information for better decisions**

– increases comparability, transparency and usefulness of information

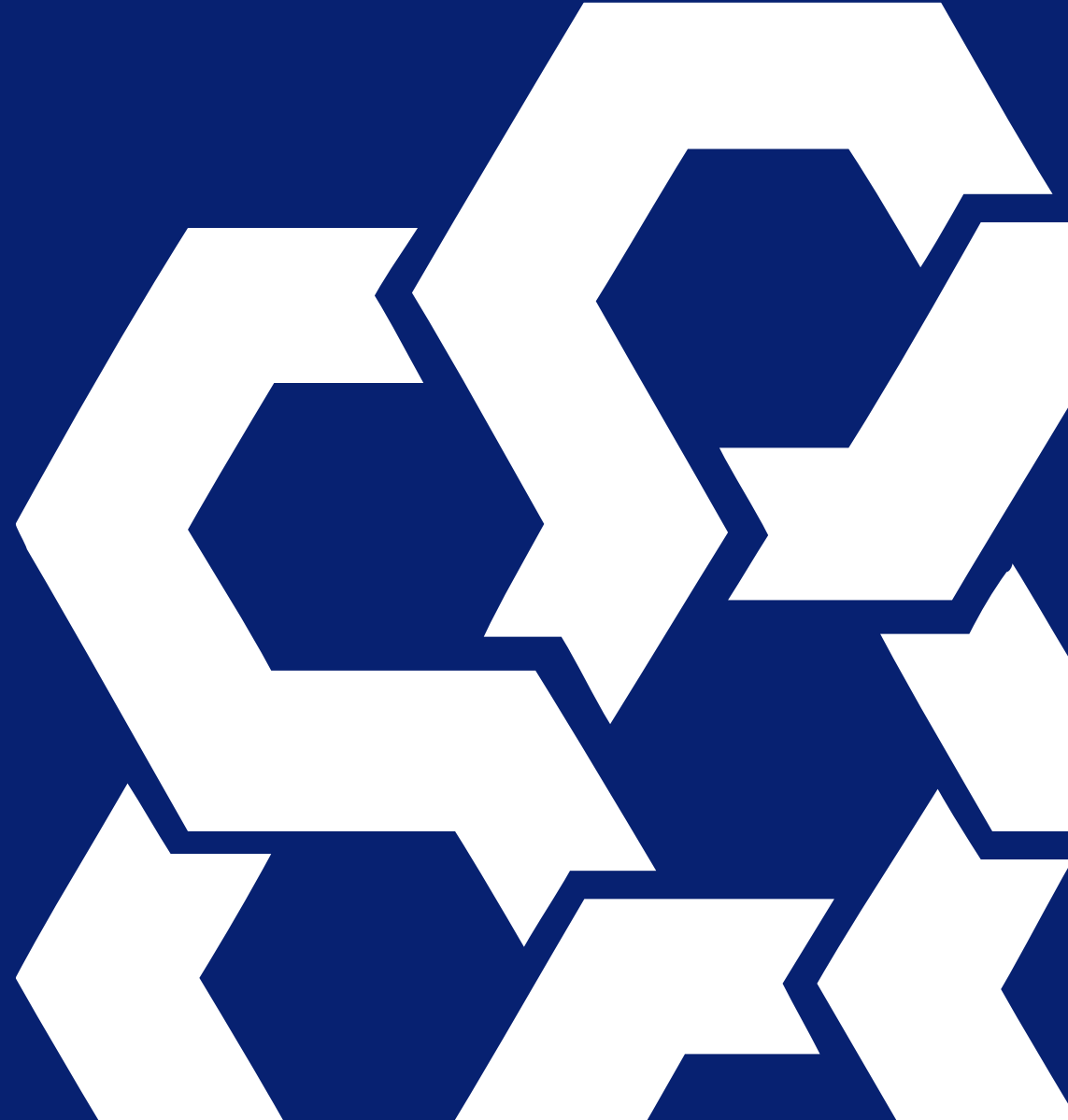


**Effective date:** 1 January 2027



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## Categories and subtotals



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## Categories and subtotals in the statement of profit or loss

### **Investors' concerns**

- Difficulty comparing financial performance because companies' statement of profit or loss vary in content and structure

### **IFRS 18 introduces**

- Three new defined categories to provide a consistent structure of the statement of profit or loss:
  - operating
  - investing
  - financing
- Two new required subtotals to enable analysis:
  - operating profit
  - profit before financing and taxes

## New required subtotals

### Operating profit

Gives a complete picture of a company's operations

### Profit before financing and income taxes

Gives a picture of a company's performance before the effects of its financing

## Statement of profit or loss

Revenue

Cost of sales

**Gross profit**

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Goodwill impairment loss

Other operating expenses

**Operating profit**

Share of profit or loss of associates and joint ventures

Other investment income

**Profit before financing and income taxes**

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities and provisions

**Profit before taxes**

Income tax expense

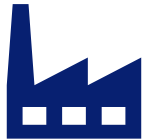
**PROFIT**

Operating

Investing

Financing

## What is in the operating category?



### **Income and expenses:**

- All income and expenses from a company's operations, regardless of whether they are volatile or unusual in same way
- Including from its main business activities



**Works for all business models**

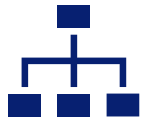
**Provides complete picture of company's operations**

## What is in the investing category?



**Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity**

- rental income and remeasurements of investment property
- interest income and fair value changes on financial assets, such as debt securities
- Dividends and fair value changes on non-consolidated equity investments



**Income and expenses from non-consolidated subsidiaries, associates and joint ventures**



**Income and expenses from cash and cash equivalents**

## What is in the financing category?



### **All income and expenses from liabilities from transactions that involve only the raising of finance**

- Receipt and return of cash or company's own shares
- Reduction in financial liability
- E.g., bank loans

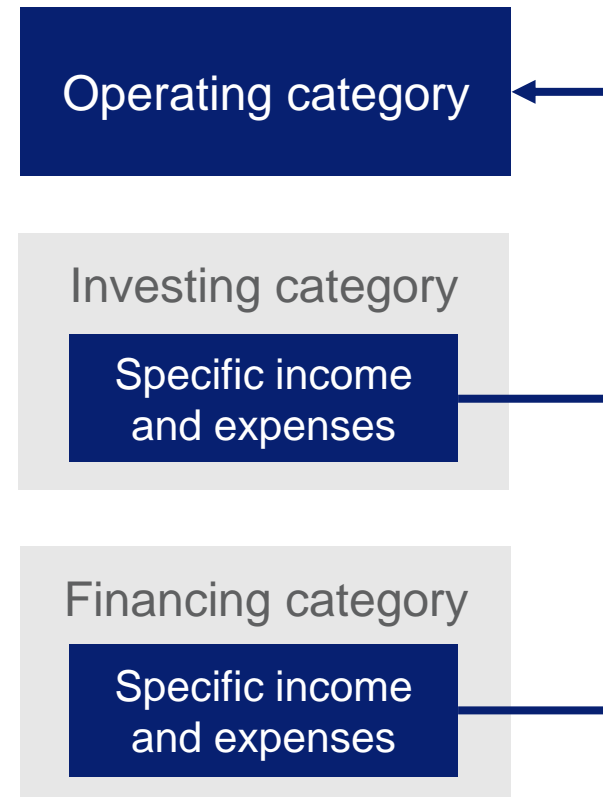


### **Interest expense and effects of changes in interest rates from other liabilities**

- Lease liabilities
- Defined benefit pension liabilities

## Requirements for specific companies

- For some companies, financing and investing activities are their main business activities – for example banks and insurers
- These companies include income and expenses in their operating profit that for other companies would be included in the investing or financing categories



# Statement of profit or loss - financing and investing as main business activities

Interest revenue

Interest expense

**Net interest income**

Fee and commission income

Fee and commission expenses

**Net fee and commission income**

Net trading income

Net investment income

Credit impairment losses

Employee benefits

Depreciation and amortisation

Other operating expenses

**Operating profit**

Share of profit of associates and joint ventures

Interest expenses on pension and lease liabilities

**Profit before income taxes**

Income tax expense

**PROFIT**



Operating



Non-main Investing and  
financing



# Statement of profit of loss - insurance as a main business activity

Insurance revenue

Insurance service expenses

**Insurance service result**

Investment income

Credit impairment losses

Insurance finance expenses

**Net financial result**

Other operating expenses

**Operating profit**

Share of profit or loss of associates and joint ventures

**Profit before financing and income tax**

Interest expense on borrowings and pension liabilities

**Profit before income taxes**

Income tax expense

**PROFIT**

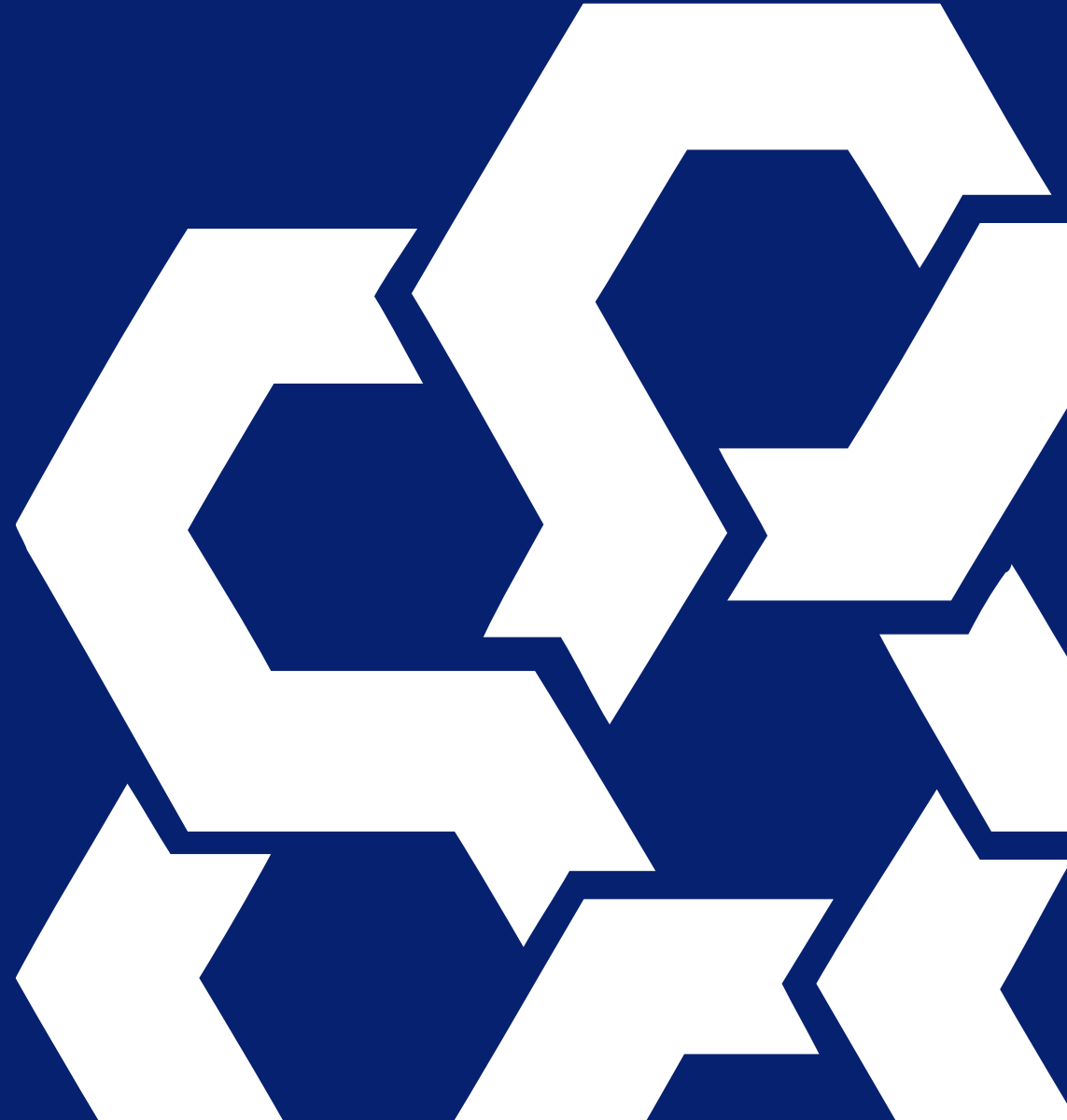
Operating

Investing

Financing

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## Management-defined performance measures



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## Management-defined Performance Measures (MPMs)

### **Investors' concerns**

- Investors find MPMs useful but they have concerns about lack of transparency of how these measures are calculated

### **Examples of alternative performance measures (APMs) or non-GAAP measures used today**

- **Adjusted operating profit**
- **Adjusted profit or loss**
- **Adjusted EBITDA**
- Free cash flow
- Return on equity

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## Management-defined Performance Measures (MPMs)



**Subtotals of income and expenses** not required or specifically exempted by IFRS Accounting Standards



Included in **public communications outside financial statements**



Measures that communicate **management's view** of a company's financial performance

## Disclosures for MPMs

### IFRS 18 introduces requirements to disclose in a single note

- **Reconciliation** back to IFRS-defined subtotal
- Explanation of **why** the MPM is reported
- Explanation of **how** the MPM is calculated
- Explanation of any **changes** to the MPM



## What might a reconciliation look like?

	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of PP&E	MPM
Other operating income		-	-	(1,800)	
Research and development expenses		1,600	-	-	
General and administrative expenses		-	3,800	-	
Goodwill impairment loss		4,500	-	-	
<b>Operating profit / Adjusted operating profit</b>	<b>57,000</b>	6,100	3,800	(1,800)	<b>65,100</b>
Income tax expense		-	(589)	297	
<b>Profit from continuing operations / Adjusted profit from continuing operations</b>	<b>32,100</b>	6,100	3,211	(1,503)	<b>39,908</b>
Profit attributable to non-controlling interests		305	161	-	

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## Calculating the income tax effects – possible methods

**1**

statutory  
tax rate(s)

**2**

pro rata allocation  
of tax

**3**

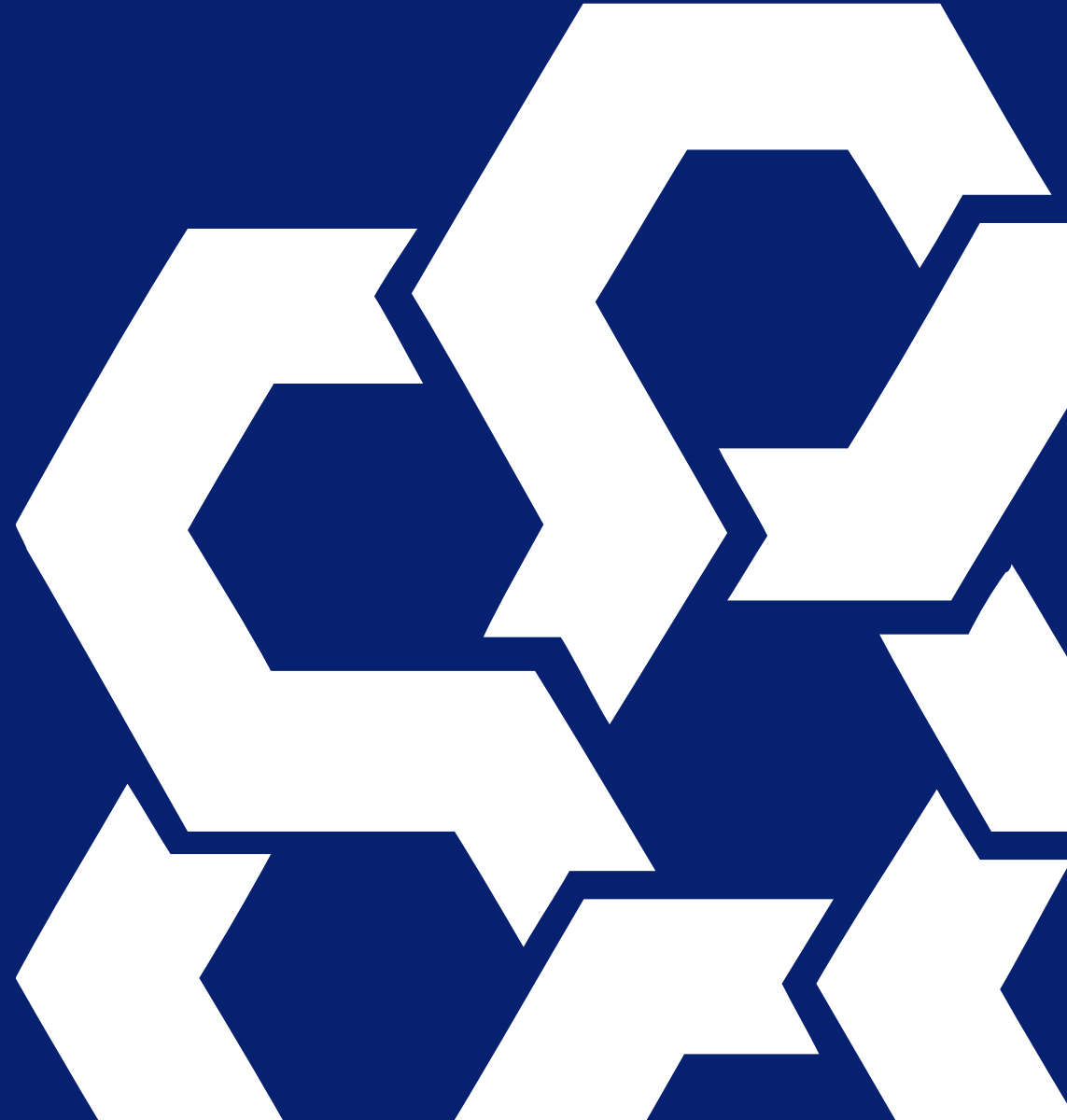
other method  
if it gives better  
information

**+**

Disclosures of how tax effects calculated  
— required for each reconciling item if more than one method is used

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## Grouping – aggregation and disaggregation – of information





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## Grouping – aggregation and disaggregation – of information

### **Investors' concerns**

- some companies don't provide enough detailed information
- important information is obscured

### **IFRS 18 introduces**

- enhanced requirements for grouping of information, including requirements for presenting and disclosing operating expenses
- guidance on whether information should be in the primary financial statements or the notes
- disclosures about items labelled as 'other'

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## Roles of the primary financial statements and the notes

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### Primary financial statements (PFS)

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Statement of  
financial  
position  
(balance sheet)



Statement of  
profit or loss  
(income  
statement)



Statement  
presenting  
comprehensive  
income



Statement of  
changes in  
equity



Statement of  
cash flows



Notes to the  
financial  
statements

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Role is to provide **useful structured summaries** of a company's  
assets, liabilities, equity, income, expenses and cash flows

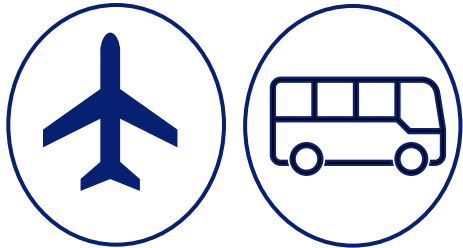
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Role is to  
provide further  
**material  
information** and  
supplement PFS

## Aggregation, disaggregation and meaningful labels



Aggregate based on shared characteristics



Single dissimilar characteristic can be enough to disaggregate if resulting information is material



Use meaningful labels

- use the label 'other' only when unable to find a more informative label
- label as precisely as possible (eg 'other operating expenses')

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## Disclosure of specified expenses by nature

**Disclose the amounts included in each line item in the operating category of the statement of profit or loss for**

Depreciation	Amortisation	Employee benefits	Specified impairments	Write-down of inventories
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Qualitative explanation is required to be disclosed if part of the amount disclosed has been included in the carrying amount of assets

## Specified expenses by nature note

(in currency units)	20X2	20X1
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
<b>Total depreciation</b>	<b>31,200</b>	<b>29,330</b>
Research and development expenses	13,840	12,690
<b>Total amortisation</b>	<b>13,840</b>	<b>12,690</b>
Cost of sales	61,640	57,175
Selling expenses	7,515	7,110
Research and development expenses	6,545	6,750
General and administrative expenses	8,920	5,825
<b>Total employee benefits</b>	<b>84,620</b>	<b>76,860</b>
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
<b>Total impairment loss</b>	<b>6,100</b>	<b>1,500</b>
Cost of sales	2,775	2,625
<b>Total write-down of inventories</b>	<b>2,775</b>	<b>2,625</b>

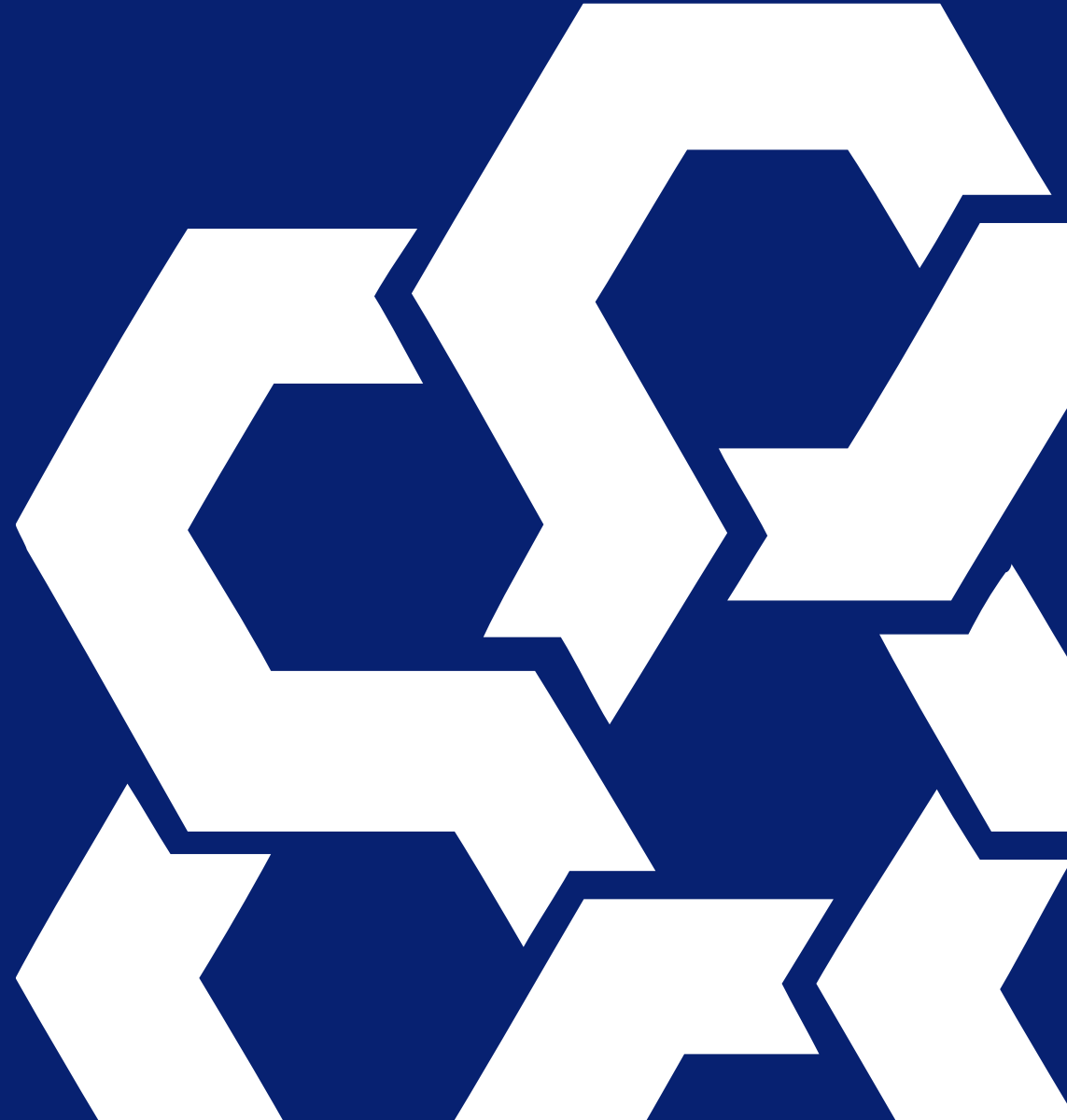
The amounts disclosed are those recognised as expenses in the statement of profit or loss for the year, except for depreciation and employee benefits.

The amounts disclosed for depreciation are the charge for the year, calculated in accordance with IAS 16 *Property, Plant and Equipment*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

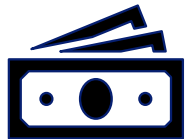
The amounts disclosed for employee benefits are the costs incurred for the year, including pension costs, for employee services, calculated in accordance with IAS 19 *Employee Benefits*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the end of the reporting period.

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## Limited changes to the cash flow statement



## Limited changes to the statement of cash flows

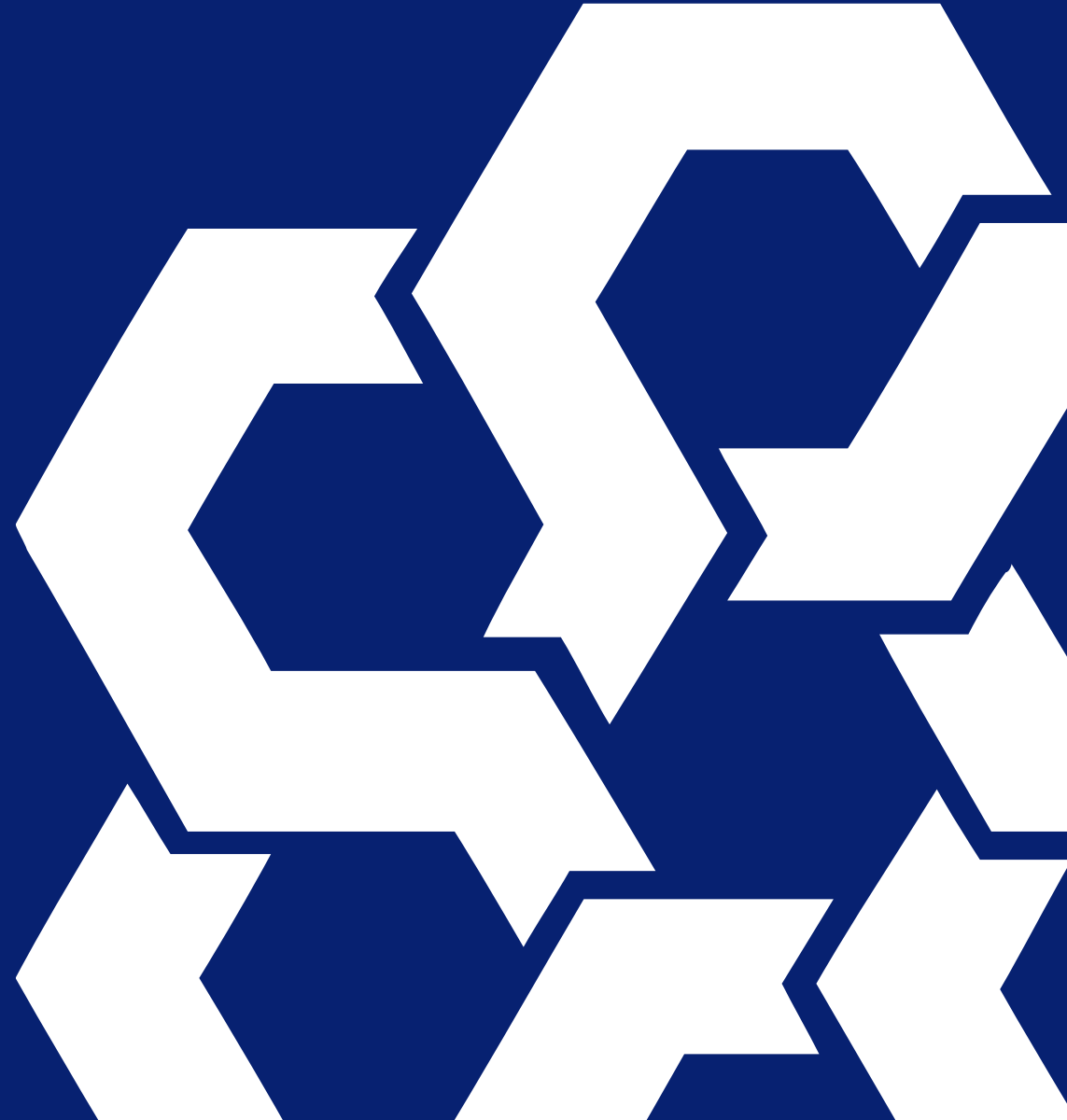


Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

Cash flows	Entities <b>without</b> specified main business activities	Entities <b>with</b> specified main business activities
Interest received	Investing activities	A single category for each item—operating, investing or financing categories
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

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## Digital reporting



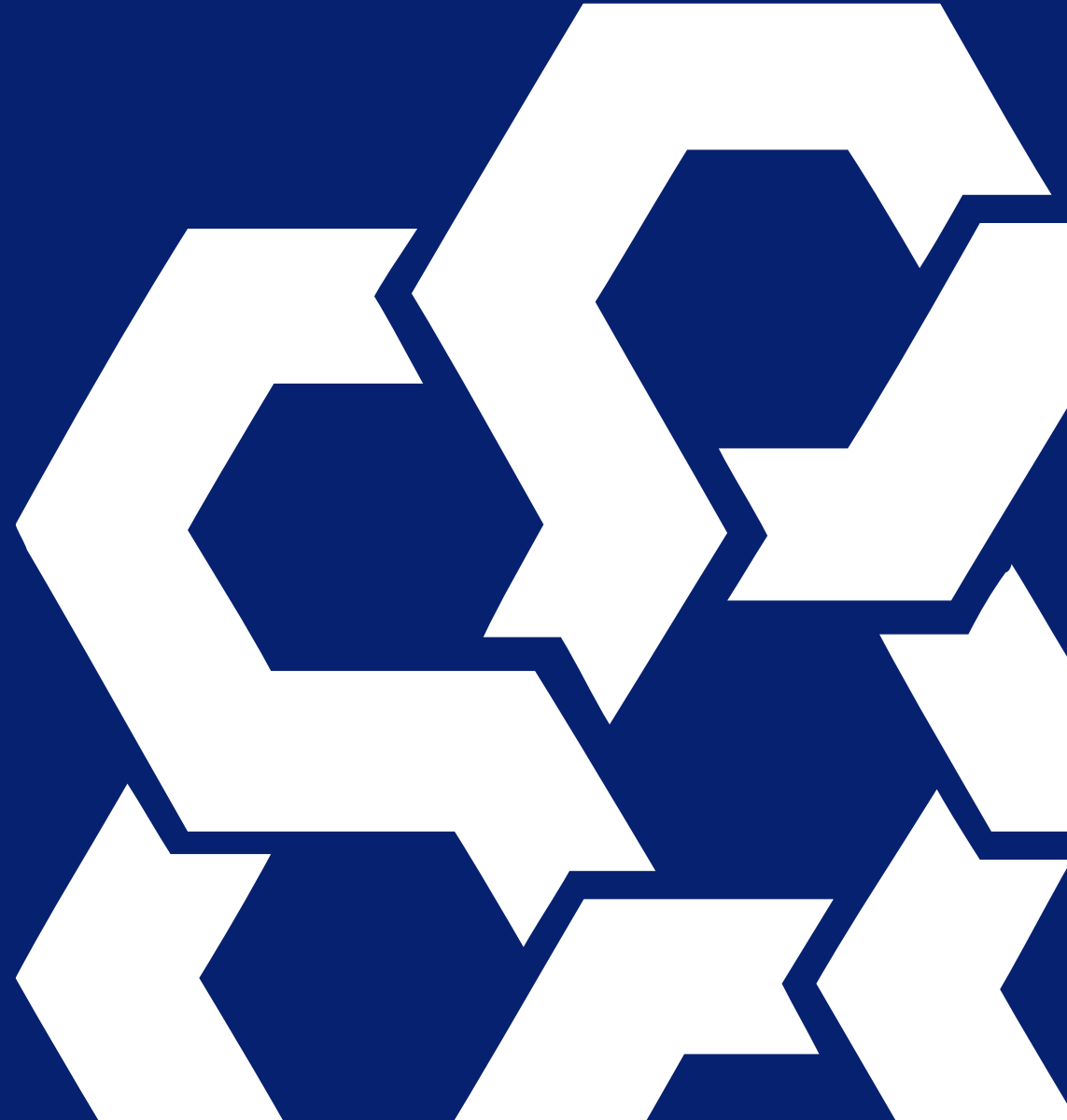


## Improving digital reporting

Investor needs	Current practice	Likely effects of IFRS 18
Comparable across companies and periods	Diversity in tagging data	Reduced diversity in reporting practices will in turn reduce diversity in tagging data
Company-specific	Company-specific information tagged using extensions or not tagged at all	MPMs in a single note are more likely to be tagged New elements will reduce need for company-specific extensions
Availability in an easily usable format	Use intermediaries or spend time understanding XBRL calculations and making adjustments to data to make it comparable	Enhanced comparability across companies Easier extraction of information about MPMs
Consistently available	Diversity in reporting practice	Defined subtotals consistently available for all companies
Free from errors	Tagged information is not free from errors	No significant effect on the number of errors

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## Package of requirements and effective date



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## What does the IASB's new package of requirements include?

### **IFRS 18 *Presentation and Disclosure in Financial Statements***



- Replaces IAS 1 *Presentation of Financial Statements*
- **New** presentation and disclosure requirements
- Related requirements brought forward from IAS 1 with limited wording changes
- Will not change how companies recognise and measure items in the financial statements



**Amendments to other IFRS Accounting Standards, including limited amendments to IAS 7 *Statement of Cash Flows***

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## When will IFRS 18 come into force?



- 1 January 2027
- Early application permitted
- Applied retrospectively and in interim financial statements

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## IFRS 18 – EDUCATIONAL SESSION

Questions to EFRAG FR TEG and USER PANEL:

1. Do you have any questions related to the presentation of the IASB?

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## KICK OFF OF THE ENDORSEMENT PROCESS

- ENDORSEMENT CONSIDERATIONS
- LIST OF TOPICS RAISED BY THE EFRAG FR TEG AND USER PANEL IN THE PAST

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## IFRS 18 – ENDORSEMENT CONSIDERATIONS

Questions to EFRAG USER PANEL:

2. What is your overall assessment of IFRS 18? Will you receive more relevant information which is useful in your decision making?



## IFRS 18 – ENDORSEMENT CONSIDERATIONS (REQUEST RECEIVED 29 APRIL 2024)

Regulation (EC) No 1606/2002 (IAS Regulation) establishes the criteria for the IFRS Accounting Standards to be adopted in the EU.

### Technical endorsement criteria

- Relevance
- Reliability including prudence
- Comparability
- Understandability
- True and Fair view

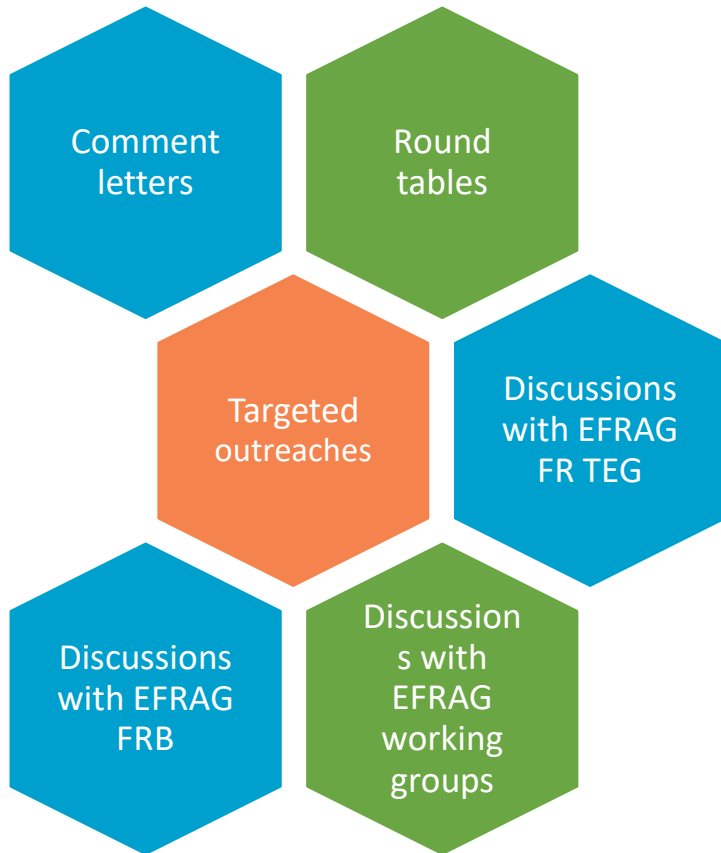
### European public good criteria

- Potential effect on EU economy (financial stability, competitiveness)
- Potential effects on stakeholders
- Costs and benefits analysis

### Other criteria

- Any other areas as requested by the EC

## IFRS 18 - KEY TOPICS RAISED BY FR TEG AND USER PANEL

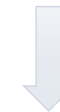


EFRAG - identification of key topics



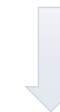
### SUMMARY OF THE ISSUES AND RECOMMENDATIONS

and various discussions with IASB



IASB:

Several changes to the IFRS 18 proposed requirements to mitigate raised issues and accommodate various stakeholders



EFRAG FR TEG and User Panel:

Identification of the topics remaining to be addressed during the endorsement process and highlighting issues where divergent stakeholder interest should be highlighted in the endorsement advice (preliminary list of topics identified so far in the process), relate them to endorsement criteria

## IFRS 18 - KEY TOPICS RAISED BY EFRAG FR TEG AND USER PANEL

### CLASSIFICATION OF INCOME AND EXPENSES ARISING FOR EQUITY-ACCOUNTED INVESTMENTS IN THE INVESTING CATEGORY

#### PREPARERS:

Results related to the equity-accounted investments should be within operating category to faithfully reflect entity's operations.

#### USERS:

Disagreeing with providing industry-specific exception.

Strong support with the IASB proposal:

- share of profit or loss from equity accounted investments would distort their analysis (include income tax effects)
- preference to have income and expenses from not controlled assets outside of the operating profit

#### IFRS 18:

Introduction of a specified subtotal "operating profit or loss and income and expenses from investments accounted for using the equity method", which would not be an MPM. Application of the fair-value option in accordance with paragraph 18 of IAS 28 only at transition to IFRS 18

## IFRS 18 - KEY TOPICS RAISED BY EFRAG FR TEG AND USER PANEL

### ANALYSIS OF EXPENSES BY NATURE WHEN PRESENTING BY FUNCTION

PREPARERS: concerns about the costs for providing such a disclosure.

USERS: supportive of the requirement to disclose by nature when presenting by function. Concerns about IASB's proposed solution which will not allow the reconciliation to the P&L.

#### IASB COST MITIGATING SOLUTION:

- Disclosures limited to five specified operating expenses (depreciation, amortisation, employee benefits, impairment losses and reversals, write-downs and reversals of write-downs of inventory)
- the amounts disclosed are not required to be expense amounts (i.e., it could include the amount capitalised). However, qualitative explanation required if part of the amount disclosed has been included in the carrying amount of assets

## IFRS 18 - KEY TOPICS RAISED BY EFRAG FR TEG AND USER PANEL

### CONCEPT OF “USEFUL STRUCTURED SUMMARY”

Concept introduced during balloting process

EFRAG:  
to further investigate potential impacts on the structure of the financial statements and related costs and benefits

In addition to presenting required totals and subtotals, a company is required to present additional subtotals in the statement of profit or loss when such presentations are necessary to provide a useful structured summary of the company’s income and expenses.

*Some IFRS Accounting Standards require specific line items to be presented separately in the primary financial statements. An entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. This is the case even if IFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements.*  
(IFRS 18 para 23)

## IFRS 18 - KEY TOPICS RAISED BY EFRAG FR TEG AND USER PANEL

### MPMs: SCOPING AND REBUTTABLE PRESUMPTION

- Highly regulated entities raised concerns on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes;
- Used with or without prominence is a highly judgemental concept. Additional clarifications included only in the Basis for Conclusions cannot be enforced;
- Practical challenges in determining which is the most directly comparable subtotal or total for the reconciliation  
(ex. “net debt cost”)

### MPMs: TAX EFFECT AND EFFECT ON NON- CONTROLLING INTEREST FOR EACH RECONCILING ITEM

- May result in a complex presentation, particularly if an entity also presents by segment;
- Simplified approach was introduced for the calculation of the tax effects. Calculation of the effect on non-controlling interest (NCI) was not addressed by IASB.

## IFRS 18 - KEY TOPICS RAISED BY EFRAG FR TEG AND USER PANEL

### Conglomerates

For conglomerates, determining the entity's main business activities AT THE REPORTING-ENTITY LEVEL will be complex and costly

Further clarification regarding the notion of 'an entity's main business activities', especially when considering different levels of reporting entities in a group context and the RELATIONSHIP WITH THE SEGMENT REPORTING INFORMATION UNDER IFRS 8

*[IFRS 18.B30] 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.*

**+ Illustrative Example II-4**

## IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

DEFINITION OF THE FINANCING CATEGORY, specifically for the financial institutions. Classification of income and expenses from liabilities into the financing category, when the underlying liabilities are not of the financial nature

Classification of income and expenses from the HYBRID CONTRACTS, specifically for the financial institutions and insurance industry

Classification of income and expenses from the DERIVATIVE INSTRUMENTS in the default operating category and related potential volatility of these instruments

TRANSITION REQUIREMENTS, specifically to the restatement of the comparative periods. The concern related to the cost of the restatement for the entities who are required to provide more than one comparative periods.

Additional guidance was provided by the IASB along with the illustrative examples and flowcharts. Application of the revised approach was addressed by the IASB during the drafting process.

=>> to further investigate the application of the revised guidance

=>> no transition relief provided



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## IFRS 18 – ENDORSEMENT CONSIDERATIONS

Questions to EFRAG FR TEG and User Panel:

3. Were the key topics raised by the EFRAG FR TEG and User Panel properly addressed by the IASB (considering the feedback from different stakeholders)?
4. What are the issues that should be specifically addressed as part of the endorsement process when assessing the specific endorsement criteria? Did the presentation already reflect the respective attention points or are there others or should one of the issues be deleted from the list?
5. Could you highlight the three most important issues to be addressed in the endorsement advice and relate them to the respective endorsement criteria?
6. Do you have any other comment on the expected upcoming endorsement process?