IFRS 18 EDUCATIONAL SESSION FOR CORPORATES

SUMMARY REPORT

7 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 7 June 2024, EFRAG hosted an educational session in collaboration with the International Accounting Standards Board (IASB) and BusinessEurope. The objective was to educate interested stakeholders on the new requirements introduced with 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 corporates in Europe. The session aimed to provide comprehensive insights into the new Standard, emphasising its application, benefits and challenges. The event featured presentations from IASB members and technical staff as well as contributions from corporate representatives and academics who shared their experience with the Standard. EFRAG shared with all participants the workplan for the European endorsement process.

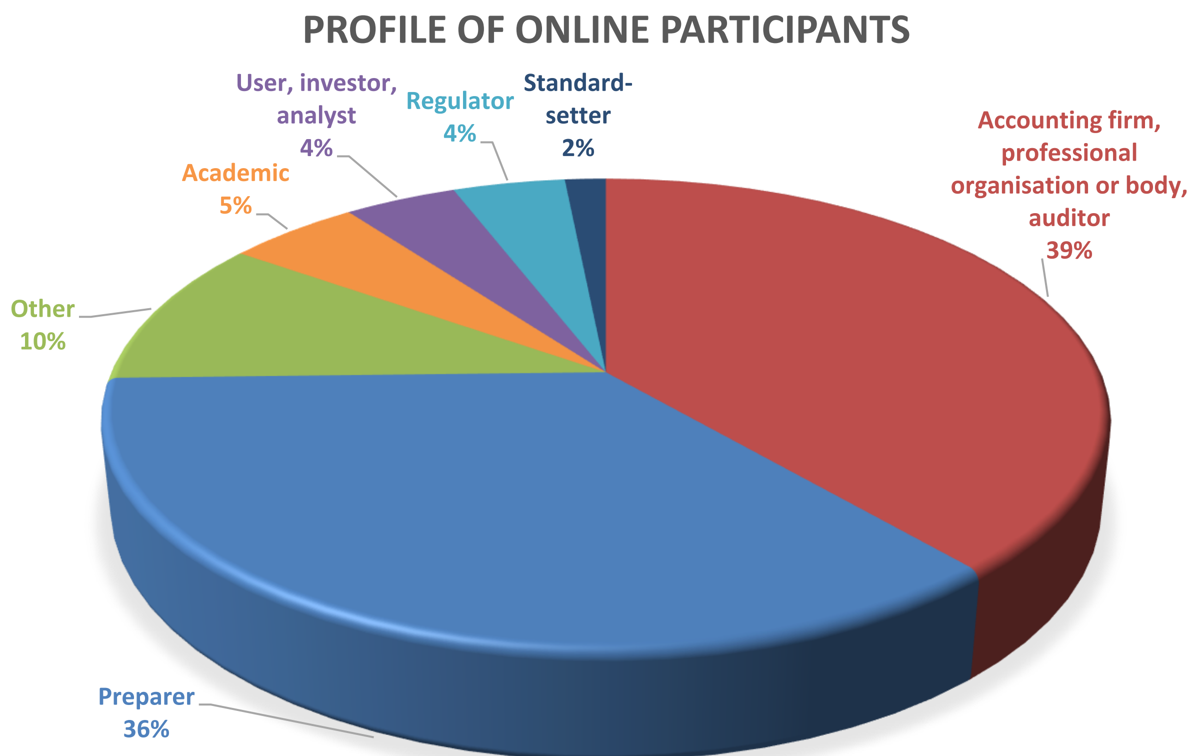
This report has been prepared to summarise the event's highlights for the convenience of European constituents. The program of the event, the speakers' biographies and the material presented during the event can be consulted [here].

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 the event participants – 257 in total – is summarised below.



Introduction and opening remarks

Michael M. Fechner, member of the Sounding Board and the Accounting Harmonisation Working Group of BusinessEurope as well as meeting moderator, opened the session by welcoming participants and outlining the agenda. He emphasised the importance of understanding IFRS 18's practical implications given that it is now finalised and published by the IASB and has an impact on each entity reporting under IFRS Accounting Standards. He highlighted that the session would focus on the implementation of IFRS 18 requirements and related practical challenges; he also noted the importance of early preparation for smooth adoption of the Standard by the effective date (i.e. 1 January 2027).

Kathrin Schoene, EFRAG Project Director, presented the endorsement process of IFRS 18 in the European Union. She explained that on 29 April 2024 EFRAG was asked by the European Commission (EC) to assess this Standard against the European endorsement criteria, including relevance, reliability, comparability and understandability, as well as whether it is conducive to the European public good. No additional topics compared to the usual endorsement criteria are requested to be assessed, and no additional information has to be provided according to the endorsement advice request from the EC. She outlined the steps and the expected timeline involved in the endorsement process, including public consultation and final endorsement by the

European Commission. Current planning would aim for the finalisation of the European endorsement process by the end of 2025.

Bertrand Perrin, IASB member, provided an overview of the main requirements of IFRS 18, emphasising its significance in improving communication in the financial statements. The Standard introduces major changes to the statement of profit or loss, aiming to enhance global comparability and to provide investors with a better basis for analysing companies' performance through the following main requirements:

- introduction of new defined subtotals to respond to investor demands for better information about companies' financial performance;
- disclosure of Management-defined Performance Measures (MPMs) to improve transparency and help investors understand management's view of the company's performance; and
- enhanced guidance on aggregation and disaggregation of information to ensure material information is clearly communicated.

Further, as IFRS 18 replaces IAS 1 *Presentation of Financial Statements* and will be effective from 1 January 2027 – with an option for earlier application – he encouraged early preparation to facilitate a smooth transition.

Categories and subtotals

IASB presentation

Roanne Hasegawa, IASB Technical Staff, provided an overview of the requirements for categories and subtotals in the profit or loss statement. She explained the three main categories — operating, investing and financing — and the two new subtotals — operating profit and profit before financing and income taxes. Furthermore, she presented the specific classification requirements for entities with main business activities and the factors to be considered by the entities in assessing whether they have specified main business activities.

Experience and practical insights from the panellists

Ewa Maruszewska, professor at the University of Economics in Katowice (Poland) and former Chief Financial Officer at Welding Alloys Polska, noted that IFRS 18 will ensure a clearer and more informative financial reporting structure, enhancing the transparency and usefulness of financial statements for both internal and external stakeholders. She emphasised the lively exchange with the IASB in the consultation and redeliberation phase and the IASB's openness to feedback and suggestions as well as the own learning curve associated with the exchange. She stressed the importance of early preparation of the implementation, ideally by conducting preliminary assessments in the current or following year, despite the Standard's effective date being 1 January 2027. Early preparation is essential due to the requirement on applying IFRS 18 retrospectively. Accounting policy choices have been introduced by IFRS 18 (e.g. the one related to the classification of interest income or expense on cash and cash equivalents) and, therefore, entities would need to consider the options and to adapt their existing accounting policies.

Finally, commenting on the judgment required to classify foreign exchange gains or losses based on the nature of the assets/liabilities they refer to, she questioned whether it would be more appropriate to present them as a separate line item in the statement of profit or loss or together with the related income or expenses.

Bertrand Perrin responded that the presentation of foreign exchange gains or losses depends on how foreign exchange (FX) risk management is organised and structured within a company as well as the IT systems in use. He noted that some European ERP systems track FX impacts attached to assets and liabilities separately, which would enable the presentation of this information separately. However, not all companies may use such ERP systems.

Juliane-Rebecca Upmeier, IASB Technical Staff, further elaborated that it depends on the company and emphasised that the presented items need to provide a useful structured summary of the company's income and expenses. She mentioned that the principles for aggregating and disaggregating items revolve around grouping based on similar characteristics and for separating based on dissimilar characteristics. In the case of foreign exchange gains or losses, judgement will be involved when considering whether presenting them separately contributes to a useful structured summary. There is no definitive right or wrong answer as it is very entity-specific.

Maciej Tuszkiewicz, Chief Accountant and Finance Manager at Welding Alloys Polska, emphasised the importance of starting early with the implementation of IFRS 18 as well as the need for being proactive in reading and applying the Standard. This approach would help in identifying missing elements and areas requiring judgment. He pointed out that the application of judgment is crucial and that there are some cost-mitigation measures in IFRS 18 in the case of undue costs for preparers, such as the one related to the classification of all foreign exchange gains or losses in the operating category if separating them would involve undue costs. In this regard he questioned whether, in drafting IFRS 18, the IASB considered the risk that might be posed by entities using this simplification broadly, potentially misusing it by claiming undue costs to avoid detailed separation.

Roanne Hasegawa stated that, based on the feedback received during the consultation phase of IFRS 18, some entities expressed the need for such a relief. Further, she clarified that the relief does not apply universally but rather at the level of individual items. For instance, while FX differences on some items like foreign currency loans might be able to be classified into the financing category without undue cost or effort, a company may need to apply the relief to FX differences on other items and classify them in the operating category. Finally, she emphasised the entity-specific nature of this relief and acknowledged uncertainty regarding market responses to these requirements. She concluded by highlighting efforts to finding practical solutions that accommodate diverse organisational needs within the companies applying IFRS Accounting Standards.

Nick Barlow, IASB Technical Staff, further emphasised the feedback collected during fieldwork, where varying organisational approaches to managing FX risks were observed. Indeed, some companies use systems that can provide a detailed FX breakout and manage risks on a category- or item-specific basis; by contrast, others manage FX centrally without providing a detailed breakdown, which may result in them using the undue cost or effort relief. He clarified that such a relief provision is intended for situations where system changes are prohibitively expensive, whereas companies with existing capabilities are expected to report accordingly without applying it. He was confident that the provision will appropriately address various operational realities within organisations.

Finally, **Bertrand Perrin** explained that the requirement of the default category for FX gains or losses being operating category in case of undue cost or effort reflects the feedback from investors who emphasised the importance of presenting the impacts of an entity’s business activities, which include FX impacts, within the operating category.

Andreas Gattung, Head of the Accounting Principles Department at the Volkswagen Group, presented the challenges in assessing the main business activities at the Volkswagen Group, which combines automotive manufacturing and providing financial services to customers. In particular, he questioned whether the accounting policy choice provided by IFRS 18.65(a) for the classification of income and expenses from the liabilities that arise from transactions that involve only the raising of finance in the operating category – rather than in the financing category – should be uniformly applied across both divisions (i.e. financial services and automotive) and how this approach would impact the reporting of operating income within the Volkswagen Group at the consolidated level. Finally, he highlighted the complexity of applying the factors included in IFRS 18 to support entities in assessing their main business activities (i.e. the entity’s reportable segment(s)). Therefore, he asked whether an entity might consider additional factors to those mentioned in the Standard.

Roanne Hasegawa clarified the application of the aforementioned accounting policy choice under IFRS 18, emphasising that this choice is assessed at each reporting entity level (both at the subsidiary and group level) and that the conclusions reached may differ. She further noted that if a conglomerate presents its financing activity as a separate segment within its segment reporting, this would be an indication that the financing activity represents a main business activity and that, therefore, related income and expenses should be presented in the operating category. This does not preclude an entity from presenting in the financing category the income and expenses related to the financing of the automotive business activity.

She highlighted that the IASB's expectation would be that automotive groups who also provide financing to customers would present in the operating category the income and expenses from liabilities that relate to providing financing to customers and present within the financing category the income and expenses related to the financing of the automotive activity. This way, misleading information provided by these types of conglomerates would be avoided.

Regarding the question related to the factors to be considered when assessing the main business activities, she clarified that the factors listed in the Standard are examples that support such an assessment and that entities have to exercise their judgment when reaching their conclusion.

Bertrand Perrin added that considering to which extent information is disaggregated in the segment reporting information might be an indicator and that this kind of information should be linked to the content of the primary financial statements as well.

Francois Andreoli, IFRS Accounting Standards expert at Nestlé, shared a detailed perspective on the implications of IFRS 18 during the panel discussion. He began by expressing appreciation for the development of the Standard, noting his company's proactive engagement since the issuance of the Exposure Draft ('ED') in 2019. He underscored that one of the main reactions within his group was to whether the implementation of IFRS 18 would have an impact on their existing key performance indicators (KPIs). He emphasised the IASB's balanced stance in defining clear reporting categories while allowing management the latitude to apply judgment in interpreting and reporting financial results. For example, on the presentation of investments accounted for by using the equity method, entities may continue using an existing KPI which includes only some of the results from equity-accounted associates and joint ventures and present required information relevant for this KPI in the notes. Indeed, he pointed out that while the Standard has introduced new categorisation requirements, it has also aimed to preserve the integrity of existing KPI frameworks used for internal management and external communication.

Furthermore, he discussed specific examples within his organisation where the distinction between operating profit-related items and those belonging to the investing or financing category posed challenges. For instance, the classification of income and expenses from cash and cash equivalents in the investing category versus the cost of debt classified in the financing category may require careful consideration by the entities that are currently structuring their statement of profit or loss by presenting a net debt cost.

Bertrand Perrin underlined several key points in response to Francois Andreoli's comments during the panel discussion on IFRS 18. He acknowledged Francois' positive remarks about the Standard and underscored the significant role of judgement in its application. He highlighted that, being that IFRS 18 is a principle-based Standard rather than a rule-based one, its application would require companies' judgement to determine how the financial information should be presented, allowing for flexibility to be tailored to each reporting entity's specific circumstances.

Moreover, he noted feedback from investors requesting entity-specific information while also advocating for structured and rigorous reporting practices to facilitate comparability across companies. He concluded by affirming that, despite the flexibility provided by judgement, maintaining a structured approach is crucial for ensuring transparency and consistency in financial reporting under IFRS 18.

Q&A session from the audience

Audience question: Where should FX effects related to intragroup loans be classified in the statement of profit or loss?

Bertrand Perrin highlighted the complexity of determining where FX effects related to intragroup loans should be classified in the statement of profit or loss. He emphasised that the classification depends on various factors including the structure of the group, FX risk management practices and whether the perspective is from the individual entity's financial statements or the consolidated financial statements. He indicated that in the individual financial statements FX gains and losses on intragroup loans would typically be aligned with the nature of the loan (operating or financing). However, in the consolidated financial statements where FX risks are managed centrally, the effects might be considered as part of the financing category. He concluded that judgement plays a crucial role in these decisions to ensure that financial reporting reflects the economic substance of the transactions involved.

Nick Barlow added that in making its judgement a company should keep in mind that IFRS 18 requires FX differences to be classified in the same category as other income or expenses from the asset or liability that gave rise to the FX difference. If a company judges it can identify the asset or liability giving rise to the FX difference, it should be able to classify the difference in the relevant category. If an entity judges it cannot identify the underlying asset or liability, the default operating category would apply. If the entity judges it would result in undue cost or effort to identify the underlying asset or liability, the entity would be able to classify the differences in the operating category.

Audience question: Why are cash and cash equivalents classified in the investing category?

Bertrand Perrin stated that the IASB changed the classification from the financing (as in the ED) to the investing category because cash and cash equivalents do not represent proper financing and investors asked for a financing result that reflects the gross financial debt of the company.

Roanne Hasegawa added that feedback received by the IASB highlighted a balanced view in having cash and cash equivalents in the investing or financing category. However, since many stakeholders highlighted the complexity involved in distinguishing between what belongs to the investing category and what belongs to the financing category (i.e. between cash and cash equivalents and other financial assets), the IASB decided to simplify the requirement and not require entities to make the distinction.

Audience question: Can service costs associated with defined benefit pension liabilities under IAS 19 *Employee Benefits* remain in the operating category while only the net interest is shown in the financing category?

Roanne Hasegawa confirmed that such an interpretation relating to service costs and interest expenses accounted for in accordance with IAS 19 is correct.

Management-defined Performance Measures (MPMs)

IASB presentation

Nick Barlow presented IFRS 18 requirements relating to MPMs both in terms of definition and required disclosures. Further, he presented an example illustrating how MPMs might be reconciled to the most directly comparable total or subtotal presented in the statement of profit or loss, including disclosure of the non-controlling interest ('NCI') and income tax effects calculated for each reconciling item.

Bertrand Perrin highlighted that, since each entity might have its own way of calculating performance measures despite similar descriptions, IFRS 18 will make such measures more understandable and transparent to users of financial statements. Thus, IFRS 18 will improve comparability across entities and different jurisdictions since MPMs requirements are not influenced by local regulations.

Experience and practical insights from the panellists

Lars Hamers, Technical Accounting and Reporting expert at dsm-firmenich, highlighted that in Europe preparers are somewhat familiar with the approach due to ESMA's Guidelines on Alternative Performance Measures ('APMs'). However, the scope of MPMs under IFRS 18 is limited to subtotals of income and expenses in contrast to the broader definition found in ESMA's guidance, which also includes financial position and cash flow measures. Therefore, he wondered why the IASB opted for a narrower scope under IFRS 18.

Bertrand Perrin acknowledged the narrower scope of MPMs under IFRS 18 compared to ESMA's guidance; however, he highlighted that in this area there might be room for potential future projects to address the remaining areas over time. Further, although some APMs might not meet the definition of MPMs under IFRS 18, he noted some similarities between IFRS 18 and ESMA's guidance in Europe and that those measures should therefore continue to be disclosed in accordance with ESMA's guidance.

Nick Barlow emphasised that IFRS 18 requires entities to disclose MPMs within the financial statements and that they will therefore be subject to external audit. Despite the expected challenges, there was positive feedback from stakeholders. The IASB considered the positive feedback from stakeholders but decided to prioritise the timely release of IFRS 18 instead of extending the scope beyond those performance measures related to the statement of financial performance.

Maciej Tuszkiewicz provided insights into the cost relief brought into IFRS 18 compared to the proposed requirements in the ED, particularly regarding the simplified method to calculate the income tax effect, which would allow its group to use a pro-rata allocation method to deal, for example, with complex tax rebates in special economic areas.

Despite these benefits, he raised concerns about the narrow scope of MPMs under IFRS 18 as in his view it might lead to confusion among users who might think that those MPMs are the only metrics used by management. Further, he emphasised the distinction between MPMs, and subtotals already included in the statement of profit or loss, suggesting that clarity is necessary to avoid misinterpretation.

He questioned whether entities should explicitly disclose in the notes that not all performance measures used by management fall under IFRS 18 to prevent misunderstandings from users that are unfamiliar with all IFRS 18 requirements. Indeed, he noted that certain subtotals presented in the statement of profit or loss might be considered MPMs by the entity but that they would not be separately disclosed due to the fact that they are scoped out by paragraph 118 of IFRS 18.

Finally, he emphasised that preparers would need to consider how to prepare the required disclosures in a concise but informative way. From the users' perspective it must be clear that, although entities may use similar labels, MPMs might not be fully comparable; however, users should benefit from the required disclosure and reconciliation when performing their analyses.

Bertrand Perrin stated that in the notes accompanying the financial statements there should be a clear distinction between MPMs as defined in IFRS 18 and other APMs that do not fall within the scope of IFRS 18. He stressed that while APMs can be presented in the management commentary or other sections, MPMs under IFRS 18 must be disclosed in a single note in a manner that avoids any confusion or misinterpretation by stakeholders.

Q&A session from the audience

Audience question: Considering a situation where a company reports Earnings Before Interest and Taxes (EBIT) as an MPM, does the required reconciliation need to be done for the group level only or also for the operating or reportable segments under IFRS 8 *Operating Segments*?

Nick Barlow noted that, among other criteria, IFRS 18 defines MPMs as measures used to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. Therefore, the reconciliation has to be done at the reporting entity level only (e.g. in the example presented in the question, at the group level only) rather than at the operating segment level.

Bertrand Perrin, however, added that if an entity would like to disaggregate such a reconciliation in the segment reporting note, it is allowed to provide such additional information on a voluntary basis.

Audience question: In the context of public communications outside the financial statements, does management interviews in newspapers, magazines and so on meet the definition of 'used in public communications' under IFRS 18?

Nick Barlow replied that while IFRS 18 does not specifically define public communications, it provides some guidance. For example, public communications may include management commentary, investor presentations and press releases, while oral statements, transcripts of oral statements and social media posts are excluded. The Standard aims to encompass measures typically communicated through official channels such as management commentary or investor presentations, but beyond these the definition remains open-ended.

Audience question: If adjusted operating profit is considered an MPM, can it be retained as a subtotal in the statement of profit or loss?

Bertrand Perrin replied that IFRS 18 does not prevent entities from presenting MPMs in the statement of profit or loss in addition to the required subtotals. However, subtotals presented in the statement of profit or loss should be consistent with the structure of the statement of profit or loss. For instance, a metric such as 'cost of net debt', which combines expenses from financing activities and income from investing activities, cannot be presented in the statement of profit or loss because it is not consistent with the structure of the statement of profit or loss. Instead, if such a measure meets the definition of an MPM, it should be disclosed in the notes. He also mentioned that there are considerations in the Basis for Conclusions that elaborate on why certain subtotals, such as cost of net debt, might not qualify as MPMs.

Audience question: How much information about other performance measures which are outside the scope of IFRS 18 (e.g. APMs) can be included in the financial statements? Is there a limit or guideline on the content and/or the level of detail regarding non-MPMs that can be included in a single note for explanation in the financial statements?

Bertrand Perrin clarified that IFRS 18 applies only to MPMs, while there are other regulations and market authorities' considerations that might require specific disclosure around APMs. However, IFRS 18 specifically requires to clearly distinguish MPMs from other measures presented in the financial statements.

Audience question: Can a subtotal that meets the definition of MPM be included in the statement of profit and loss without altering its natural order or structure?

Nick Barlow clarified that even if a subtotal meets the criteria of an MPM, it can still be included in the statement of profit or loss without altering its natural order or structure. However, even if an MPM is presented in the statement of profit or loss, an entity is required to provide the disclosure and reconciliation in the notes.

Audience question: Will a company be able to continue presenting exceptional items in separate columns in the face of the statement of profit or loss subject to the new disclosure requirements?

Nick Barlow clarified that IFRS 18 does not introduce any prohibition on using additional columns in the statement of profit or loss as long as it continues to meet the structural and/or classification requirements provided by IFRS 18.

Grouping – aggregation and disaggregation – of information

IASB presentation

Juliane-Rebecca Upmeier presented the enhanced guidance on aggregation and disaggregation of financial information, including the roles of the primary financial statements and the notes. She emphasised the need to avoid large, unexplained balances labelled as 'other', which can obscure important information from investors. Further, she presented the new requirements related to the disclosure of specified expenses by nature in the notes for companies that present one or more line item by function in the statement of profit or loss. In particular, she emphasised that if some of the amounts disclosed in the specified expenses by nature note are included in the carrying amount of an asset, IFRS 18 requires a company to state that fact and provide a qualitative explanation of the assets involved.

Experience and practical insights from the panellists

Francois Andreoli stated that, conversely to the content of the ED, the cost relief introduced by the IASB limiting the disclosure requirement to only five operating expenses has been very welcomed in his organisation, which is presenting by function. However, he highlighted that some challenges still remain, especially in terms of IT systems. Indeed, he encouraged preparers to start the transition process as soon as possible, as it would require some additional effort and time to implement the new requirements. Moreover, although his organisation welcomed the IASB's decision to still allow for a mixed presentation, he was of the view that the IASB should have provided further guidance to support entities in determining which expenses to present separately by nature when their primary presentation is by function, such as the impairment of goodwill.

Bertrand Perrin reiterated that IFRS 18 does not strictly prescribe the presentation of operating expenses and that judgment has to be applied. However, in his view items monitored at group level that do not directly relate to the operating performance of a single business unit, such as goodwill impairment, may be presented by nature using mixed presentation.

Juliane-Rebecca Upmeier further elaborated on the question of mixed presentation, emphasising that a mixed presentation is not only permitted but required if it provides a useful structured summary of the company's income and expenses. She explained that presenting goodwill impairment separately might be necessary when it is challenging to allocate it to specific functions (and it could thus provide the most useful structured summary). The Basis for Conclusions and specific paragraphs in IFRS 18 outline scenarios for when a mixed presentation would provide a useful structured summary, such as when neither presenting operating expenses solely by function nor by nature would adequately reflect the entity's operations or when allocation would be arbitrary. She highlighted the importance of entities reassessing their current presentation methods to ensure their alignment with IFRS 18 requirements.

Maciej Tuszkiewicz shared insights from his experience regarding aggregation and disaggregation in financial reporting. He emphasised the importance of exercising judgment to strike a balance between showing the necessary details and maintaining materiality without overwhelming the financial statements. He advised against merely following a checklist approach or imitating other companies. Instead, he suggested that each entity should carefully determine what information needs to be disaggregated and what can remain aggregated. He illustrated this point with an experiment he conducted with financial reporting university students who were asked to apply IFRS 18 requirements. It was revealed that some students tended to be overly specific, highlighting immaterial line items, which underscored the challenge of balancing detail and clarity. He emphasised the importance of applying judgement for maintaining the quality of financial statements (i.e. so that they are neither too detailed nor too aggregated).

Maciej Tuszkiewicz also noted that companies often face challenges in disaggregating information by nature or by function due to limitations in their current IT systems. Therefore, he suggested early discussions with IT providers to address these needs, especially for large organisations with uniform systems.

Finally, commenting on the absence of additional quantitative disclosures when the amounts of operating expenses disclosed are costs rather than expenses, he questioned whether additional quantitative information, such as the percentage of costs included in the balance sheet, would enhance the quality of financial information. He suggested that such information could be beneficial for users, particularly in cases of significant fluctuations from one year to the next. This would provide a clearer picture of how costs are allocated and restrained within the financial statements.

Bertrand Perrin emphasised the importance of materiality in the principles of aggregation and disaggregation in financial reporting. He stated that materiality should be assessed both quantitatively and qualitatively, considering both absolute and relative aspects. He noted that an amount might not be quantitatively material but could be qualitatively material. Therefore, even if not included in the statement of profit or loss, such information might need to be disclosed in the notes if material.

Juliane-Rebecca Upmeier addressed the question about providing additional quantitative information relating to operating expenses in the notes. She clarified that while IFRS 18 only requires a qualitative explanation to disclose to users the fact that the amounts disclosed are not expense amounts, it does not prohibit companies from providing additional quantitative information such as percentages. Whether or not to include such voluntary information depends on the companies' and auditors' judgement.

Lars Hamers emphasised the importance of the relief introduced by the IASB regarding the disclosure of operating expenses by nature when presenting by function; however, he acknowledged that there would still be costs associated with complying with the IFRS 18 requirements. Then, he shared his concern on the limitations of using the 'other' label in the primary financial statements. In particular, he questioned whether this limitation signifies a shift away from judgment-based reporting towards a more rule-based approach.

Juliane-Rebecca Upmeier acknowledged that an 'other' line item might still appear in the financial statements of some companies but emphasised that the IASB's principles of aggregation and disaggregation, along with the requirement to label items faithfully, aim to improve transparency. She highlighted that investors have raised concerns about large, unexplained 'other' balances. The enhanced application guidance in IFRS 18 addresses how to disaggregate material items with dissimilar characteristics and provides specific advice on labelling aggregated items. If a line item such as 'other operating expenses' has a large balance, further explanation in the notes is required to ensure investors understand what it comprises.

Bertrand Perrin added that the intention behind these requirements is to minimise the residual category of 'other' in financial reporting. Despite efforts, it is inevitable that some items will be left unexplained, but the aim is to keep this residual category as small as possible.

Lastly, **Bertrand Perrin** discussed how the new application guidance on grouping of information, combined with requirements for categories and subtotals, presents a significant opportunity for companies to enhance the meaningfulness of their financial reporting to investors. He emphasised that these requirements strike a balance between requiring specific information and recognising the costs for companies when providing such details. Specifically, he highlighted the journey taken in refining disclosure requirements for expenses by nature, considering both preparers' costs and investors' information needs related to the expense composition in financial statements. This balanced approach was achieved through extensive outreach.

Q&A session from the audience

Audience question: If an entity uses a statement of profit or loss by function for internal management purposes, does it mean that an external presentation by nature cannot be retained in the primary financial statements?

Juliane-Rebecca Upmeier clarified that the requirement to present line items by nature or by function in financial statements is guided by several criteria. These include assessing which method provides the most useful information about the main components or drivers of profitability, aligning with how the business is managed internally or industry practices, and considering whether allocation to functions would be arbitrary. These criteria are applied on a line-by-line basis, allowing entities to determine the appropriate presentation method based on their specific circumstances and the nature of each line item.

Nick Barlow challenged the notion that what is useful internally (by function) may not be suitable externally (by nature), suggesting that in many cases these two approaches are expected to be aligned based on extensive consultation with users and preparers. He encouraged entities to carefully consider the criteria provided in IFRS 18 for determining the presentation method that best serves users' needs, emphasising the importance of judgment in achieving optimal financial reporting.

Bertrand Perrin emphasised that the IASB tried to balance both companies' and investors' needs requiring an entity to disclose meaningful information that facilitates effective business management and aids in assessing operational and financial performance. He highlighted recent efforts to enhance entity-specific disclosures in financial statements such as proposals related to business combination disclosures and impairment testing, which aim to better reflect internal business management practices in external reporting.

Audience question: Does the IASB expect many IFRS adopters to revisit their financial statements? And if so, what level of impact do you expect IFRS 18 to have?

Bertrand Perrin stated that with the introduction of IFRS 18 companies are expected to reassess the structure of their financial statements. While the ultimate impact remains uncertain, during the transition phase to IFRS 18 companies are likely to review and potentially enhance their current reporting practices.

Nick Barlow emphasised that the impact of IFRS 18 on companies' financial reporting will vary widely depending on their current practices. Those already aligned with the requirements may observe minimal changes, while others may undergo significant adjustments. He highlighted the complexity involved in this, mentioning specific areas, such as the classification of foreign exchange gains or losses and of income and expenses from derivatives, that require careful consideration and adjustment.

Audience question: Are the disclosure requirements related to operating expenses by nature mandatory also for interim financial statements?

Juliane-Rebecca Upmeier stated that there are no requirements to provide the disclosures in interim financial statements. The rationale includes potential high costs for preparers and the condensed nature of interim reports.

Limited changes to the statement of cash flows, 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 set 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

Andreas Gattung emphasised the timeline and preparation needed for implementing IFRS 18 by 2027, stressing the importance of IT system readiness by 2026 for retrospective application. He highlighted the intensive work at Volkswagen Group to adapt their data model and systems across subsidiaries, particularly focusing on where changes are necessary. He noted that while some aspects of requirements such as MPMs could be addressed at a later stage – as they relate more to reporting – modifying the data model requires immediate attention to allow subsidiaries adequate time for adjustment.

Regarding the limited changes made to the statement of cash flows, he pointed out that although they are minor, they may have significant implications since some transactions will now be classified within or below operating profit, which will be the starting point for the cash flow presentation using the indirect method. In addition to this, he underscored the need to ensure that balance sheet information is appropriately separated and aligned to facilitate direct presentation of items such as working capital in the investing and financing categories, highlighting the complexities involved in these adjustments.

Q&A session from the audience

Audience question: What is the rationale for using the operating profit as a starting point?

Bertrand Perrin emphasised that under IFRS 18 operating profit serves as a crucial subtotal aimed at enhancing investors' understanding of non-cash items, thereby facilitating better analysis of cash flow impacts. He underscored the significance of this change in providing a clearer starting point for financial analysis.

Nick Barlow further supported this view by highlighting that the focus on operating profit as a required subtotal was driven by the need for greater comparability across entities. He emphasised that this approach aims to standardise the starting point for financial reporting, ensuring consistency and clarity in financial analysis.

Audience question: Is there any requirement for disclosing information about expected impacts arising from IFRS 18 in accordance with paragraphs 30-31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (i.e. expected impacts arising from an IFRS Accounting Standard that has been issued but that is not yet effective)?

Nick Barlow highlighted that there are no specific exemptions related to the requirement to disclose expected impacts under IFRS 18, mirroring the approach taken with other IFRS Accounting Standards.

Bertrand Perrin elaborated that IFRS 18 requires retrospective application and, therefore, a comprehensive reconciliation of the statement of profit or loss from the previous presentation applying IAS 1. This reconciliation enables investors to understand and compare the financial information accurately before and after the adoption of IFRS 18, allowing them to make informed decisions and to adjust their financial models accordingly.

Roanne Hasegawa further clarified that IFRS 18 only modifies the requirement in IAS 8 to provide a reconciliation for all the presented periods. The transition guidance in IFRS 18 requires a reconciliation for the most recent comparative period. Entities are permitted, but not required, to provide a reconciliation for other presented periods. IFRS 18 also introduces transition requirements that allow eligible entities to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Venture* to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* at the date of initial application of IFRS 18.

Main takeaways and closing of the event

Michael Fechner concluded the session by expressing gratitude to all contributors, including panellists, IASB colleagues and the EFRAG team. He highlighted that although IFRS 18 aims to enhance comparability in the statement of profit or loss, it still allows room for judgement, which is crucial for its usefulness. Key takeaways related to the **new categories and required** subtotals include:

- the need to apply judgement, such as in allocating FX effects on a line-by-line basis;
- challenges in assessing an entity's main business activities, which is still highly dependent on the entity's structure and may be complex for conglomerates with multiple main business activities; and
- further discussions about the classification of some specific items, such as income and expenses from equity-accounted investments and from cash and cash equivalents, which may differ from the way management looks and steer their business.

Regarding **MPMs**, he pointed out that IFRS 18 aims to provide more transparency and also reliability since these measures will be audited. In addition, the Standard will allow entities some flexibility in relation to non-MPMs (APMs) while allowing the presentation of MPMs in their statement of profit or loss as long as this does not alter the structural requirements in IFRS 18. Challenges may arise in disclosing the NCI and the income tax effect related to each reconciling item.

Furthermore, he noted that compared to the ED the final Standard reflects a more balanced view of presenting primary financial statements mainly due to the cost relief introduced by the IASB in several areas (e.g. by limiting the amount of operating expenses to be disclosed by nature). In grouping information, entities have to apply judgment as well as the materiality assessment.

Lastly, he stressed the urgency of transitioning to IFRS 18, particularly in relation to the classification in the financing and investing categories and the new entity-specific information to be disclosed.

Kathrin Schoene highlighted the impact of IFRS 18 on all companies and the importance of starting the transition early, as mentioned by several participants. She noted that the EFRAG Financial Reporting Board did not identify any blocking factors for the endorsement, and this session raised no new concerns. EFRAG is on track for timely endorsement advice, potentially allowing for early application of IFRS 18 in Europe. She thanked all participants, the audience for their questions, the EFRAG Secretariat preparation team and the IASB for their presentation.

Michael Fechner thanked participants and panellists and closed the meeting.