

IFRS 18 *Presentation and Disclosure in Financial Statements*

Educational session for Corporates

7 June 2024



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OVERVIEW

- Opening of the session by BusinessEurope, EFRAG and the IASB
- IASB presentation, panel discussion and Q&A session on:
 - **Topic 1** - Categories and Sub-Totals
 - **Topic 2** - Management-defined Performance Measures
 - **Topic 3** - Grouping – aggregation and disaggregation – of information
 - **Topic 4** - Limited changes to the Cash Flow Statement, effective date and transition requirements
- Main takeaways and closing

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EDUCATIONAL SESSION ON IFRS 18 FOR CORPORATES: 7 JUNE

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IFRS ENDORSEMENT PROCESS (reminder)



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

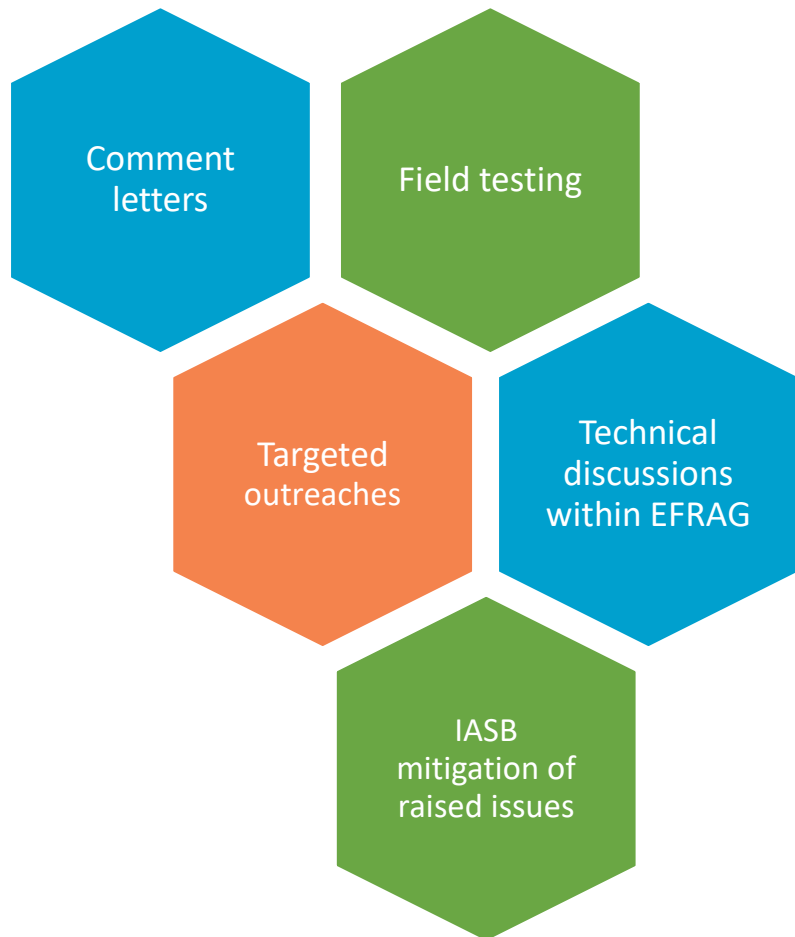
- Potential effect on EU economy (financial stability, competitiveness)
- Potential effects on stakeholders
- Costs and benefits analysis

Other criteria

- No other criteria were requested by the EC

INPUT FOR THE ASSESSMENT OF THE ENDORSEMENT CRITERIA

Already known



Workplan

EFRAG:

Connect issues raised to the endorsement criteria

Identification of the remaining topics based on consultation of technical experts and through public outreach events like occurring today

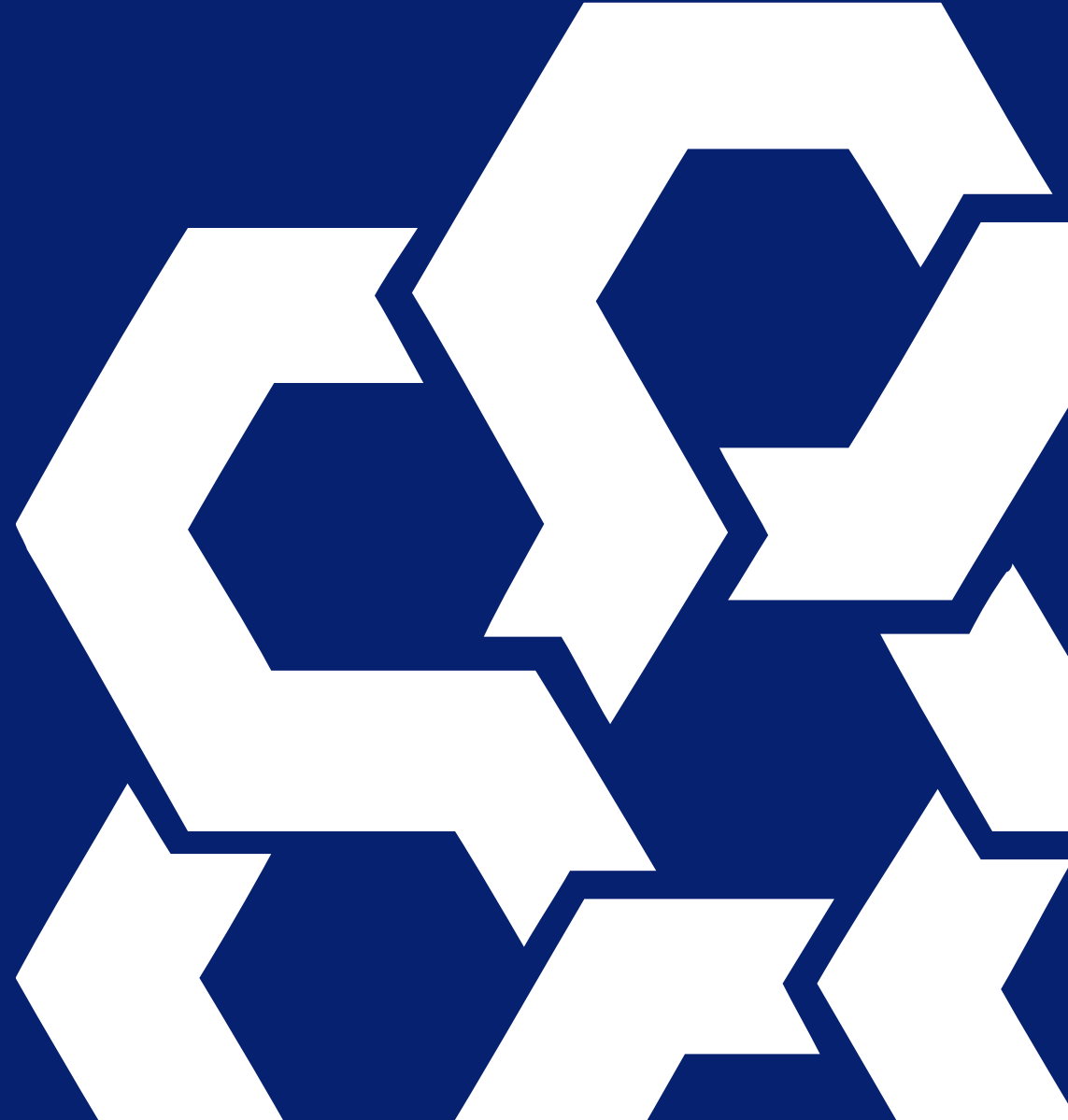
Impact assessment

Assessment of the European Endorsement Criteria based on public consultation

Primary Financial Statements

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Roanne Hasegawa, IASB Technical Staff
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Nick Barlow, IASB Technical Staff

Project Overview



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

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

Categories and subtotals



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 tax

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 tax

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities and provisions

Profit before tax

Income tax expense

PROFIT



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

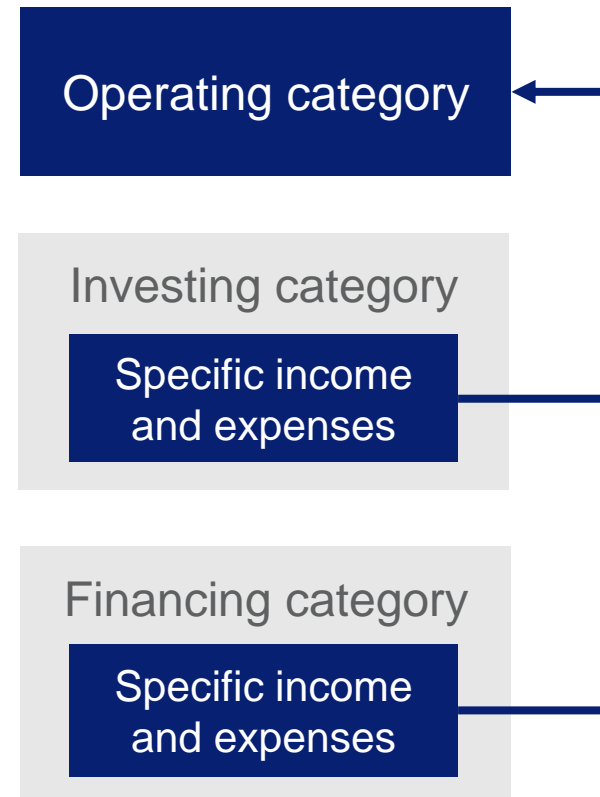


Interest expense and effects of changes in interest rates from other liabilities

- 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



Assessment of main business activities

The role of main business activities is limited to assessing whether an entity either:

- **invests** as a main business activity; or
- **provides financing to customers** as a main business activity

An entity uses **judgement** to assess its main business activities **based on evidence**. For example:

- Operating performance measures, such as net interest income and net financial result, used to explain operating performance externally
 - A reportable segment or operating segment that comprises a single business activity and performance of that segment is an important indicator of the entity's operating performance
-

How will foreign exchange differences and gain or loss on the net monetary position be classified?

- Foreign exchange differences classified in same category as income or expenses giving rise to the gain or loss, for example:

Exchange difference on:	Classification
Receivables for the sale of goods	Operating
Cash and cash equivalents	Investing
Debt issued	Financing
Income tax payables	Income taxes
Provisions / lease liabilities	Apply judgement to determine the category

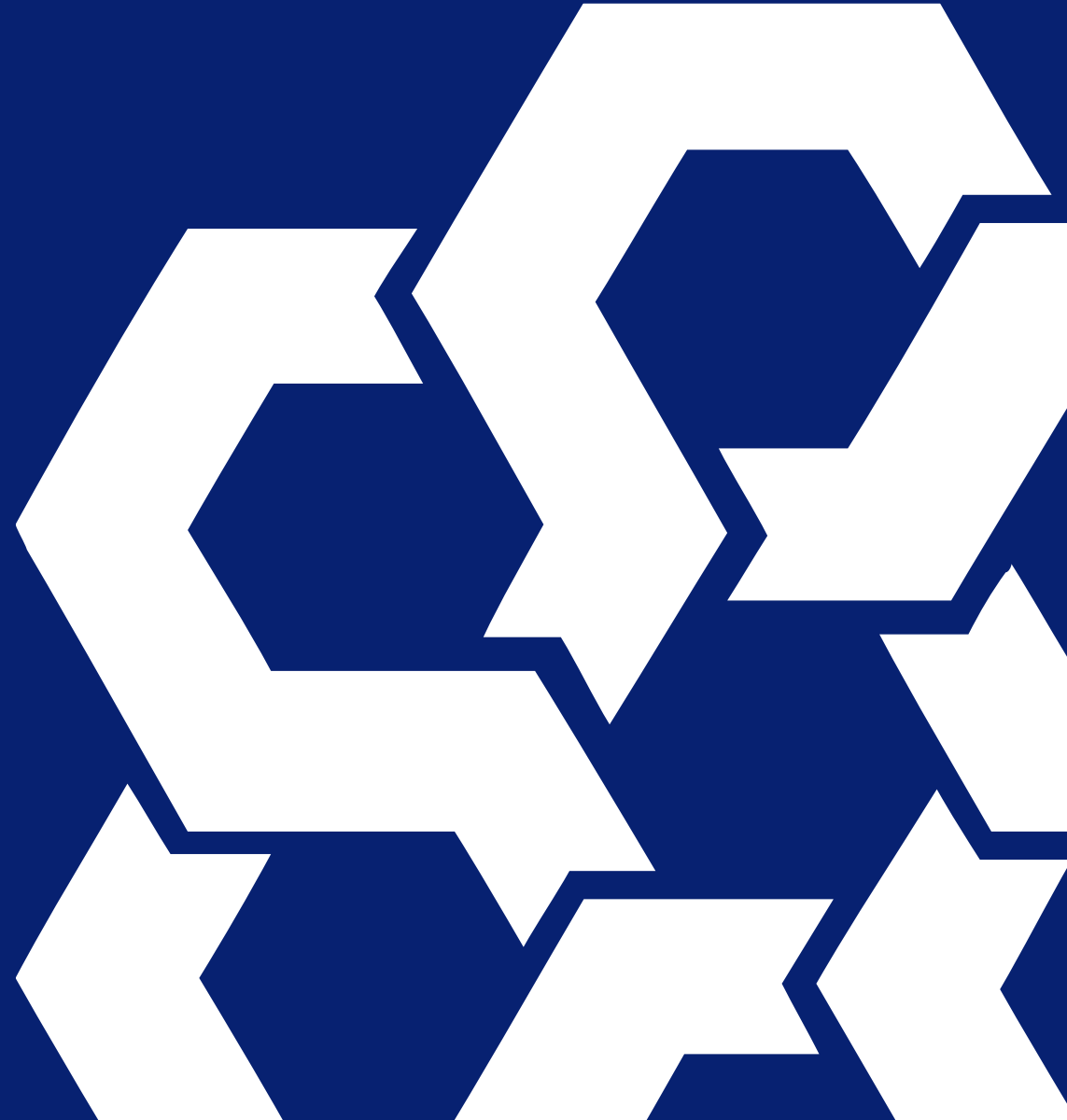
- If classifying foreign exchange differences in each category will involve undue cost or effort, they are classified in the operating category.
- Gain or loss on the net monetary position classified in operating category, unless an entity presents the gain or loss on the net monetary item with income and expenses associated with the net monetary position.

The new subtotals will

- provide a **consistent structure** of the statement of profit or loss
- **improve comparability** of companies' financial performance
- **aid investors' forecasts** of cash flows and assessment of margins



Management-defined performance measures



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 non-GAAP or alternative performance measures (APMs) measures used today

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

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?

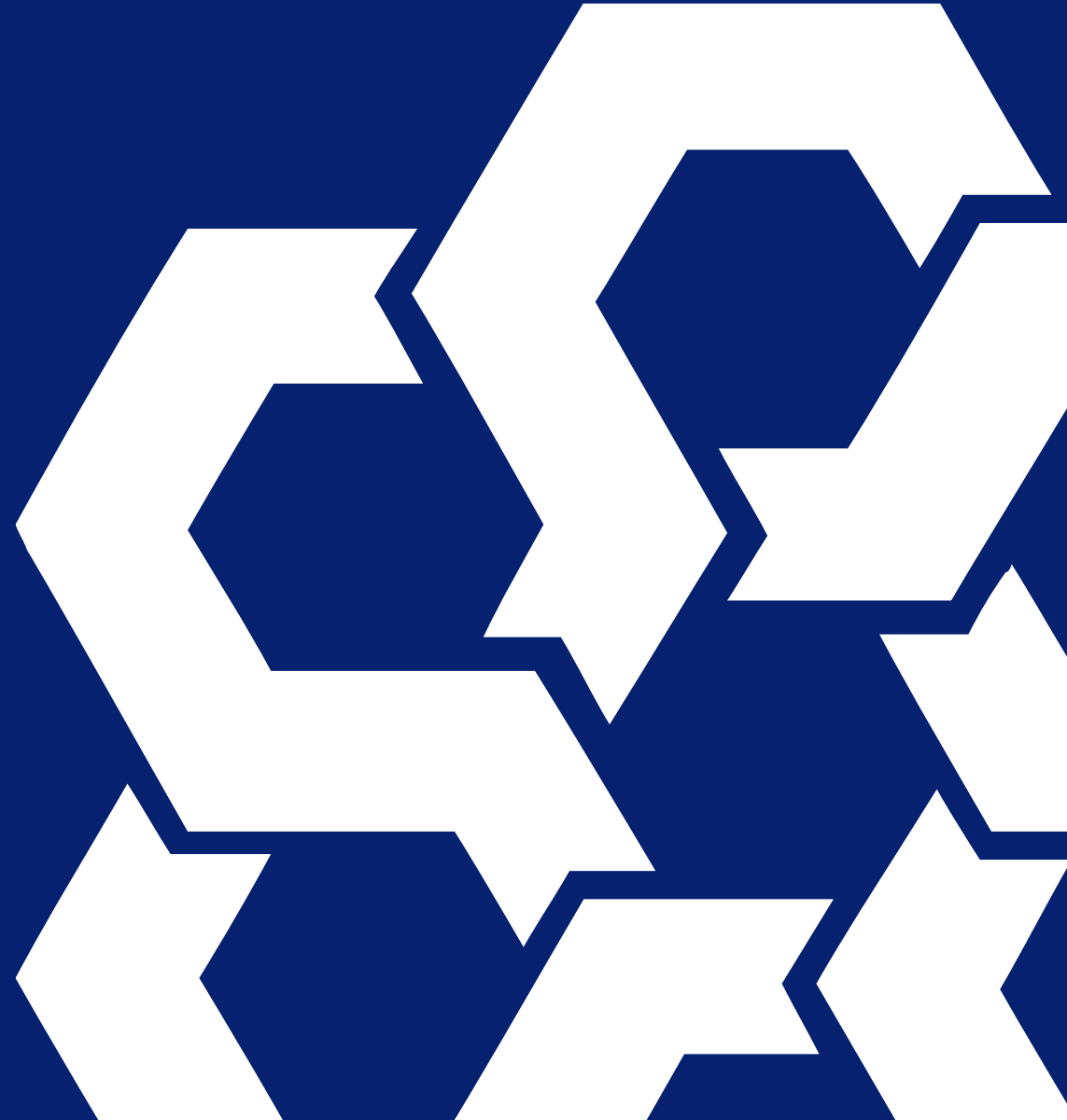
	IFRS	Impairment losses	Restructuring expenses	Gains on disposal of PP&E	MPM
Other operating income		-	-	(1,800)	
Research and development expenses		1,600	-	-	
General and administrative expenses		-	3,800	-	
Goodwill impairment loss		4,500	-	-	
Operating profit / Adjusted operating profit	57,000	6,100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

Disclosures about MPMs will

- enhance **transparency** of MPMs
- **increase investors' understanding** of how MPMs compare with the measures defined by IFRS Accounting Standards



Grouping – aggregation and disaggregation – of information



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'

Roles of the primary financial statements and the notes

Primary financial statements (PFS)



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

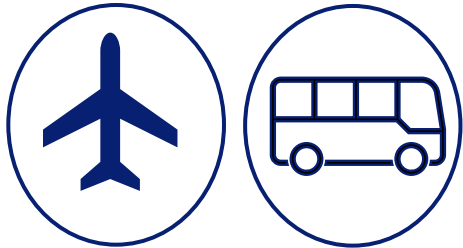
Role is to provide structured summaries of a company's assets, liabilities, equity, income, expenses and cash flows

Role is to provide further 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')

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
Total depreciation	31,200	29,330
Research and development expenses	13,840	12,690
Total amortisation	13,840	12,690
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
Total employee benefits	84,620	76,860
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
Total impairment loss	6,100	1,500
Cost of sales	2,775	2,625
Total write-down of inventories	2,775	2,625

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.

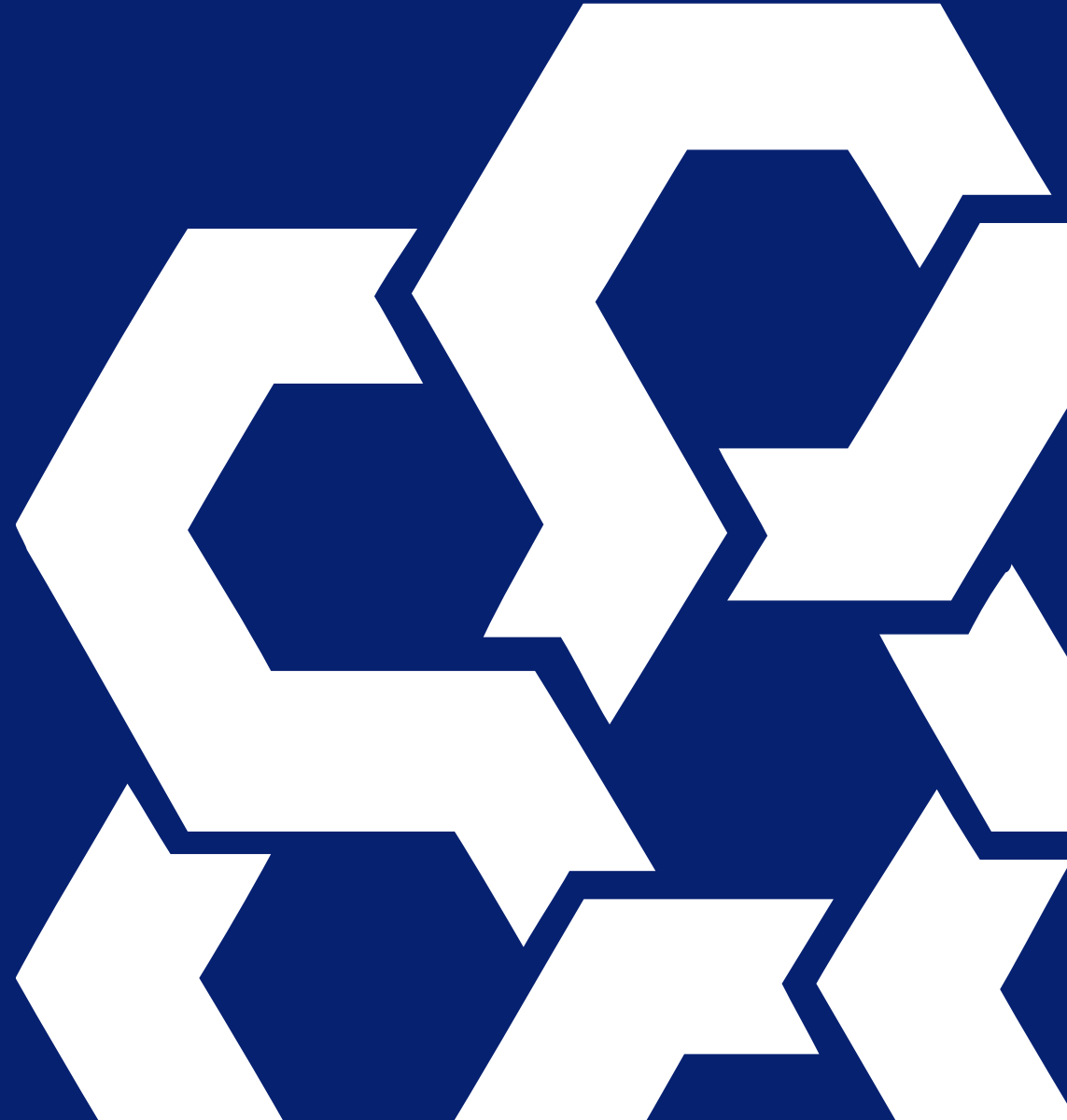
The amounts disclosed for employee benefits are the costs incurred for the year, including pension costs, for employee services, calculated in accordance with IAS 19 *Employee Benefits*. The amounts include amounts that have been capitalised by including them in the carrying amount of inventory at the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

New guidance and disclosures will

- **help companies** decide how to group information
- enhance **transparency**
- improve **usefulness** of information to investors



Limited changes to the cash flow statement



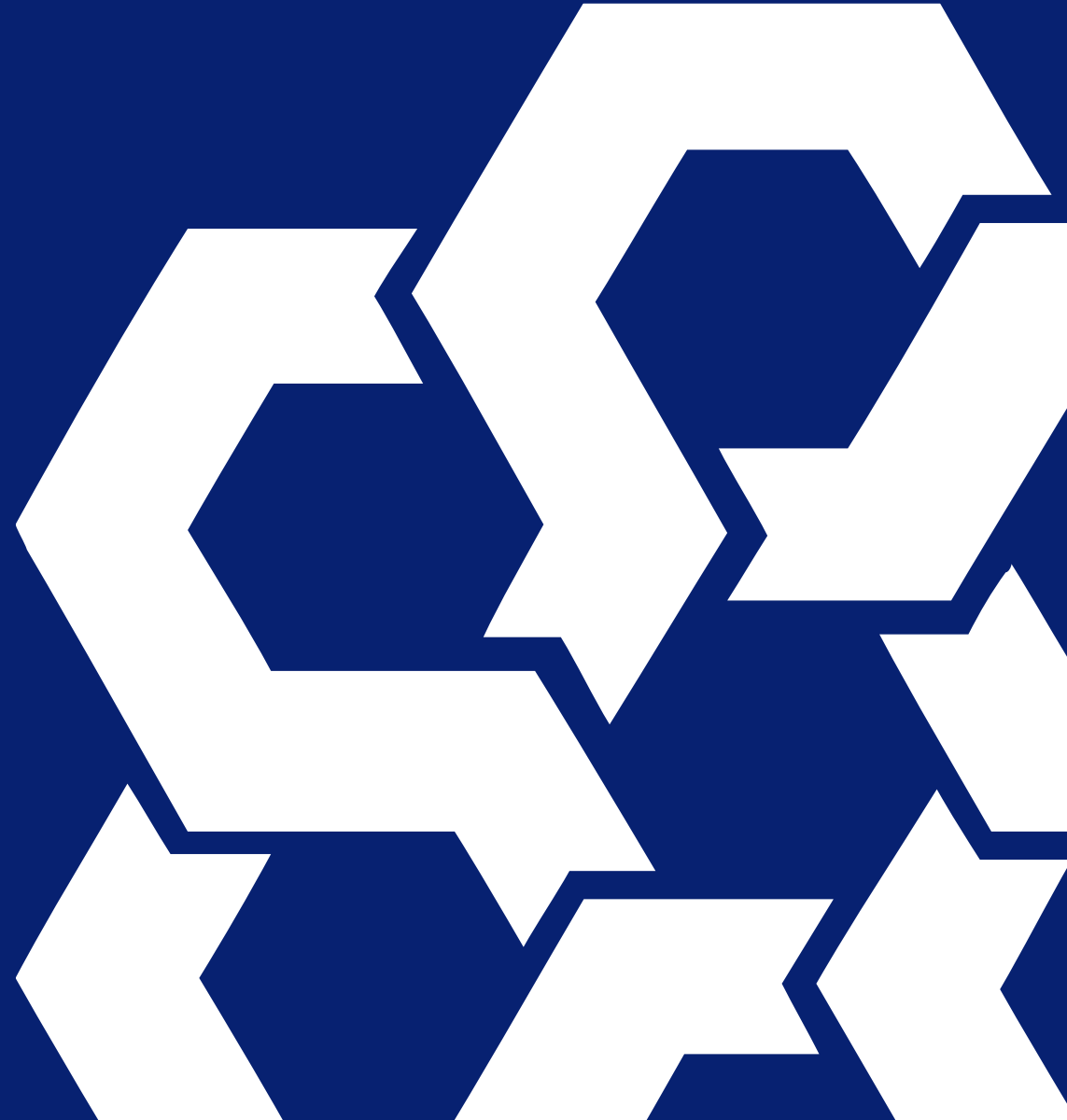
Limited changes to the statement of cash flows



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

Cash flows	Entities without specified main business activities	Entities with 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

Effective date



When will IFRS 18 come into force?



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

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