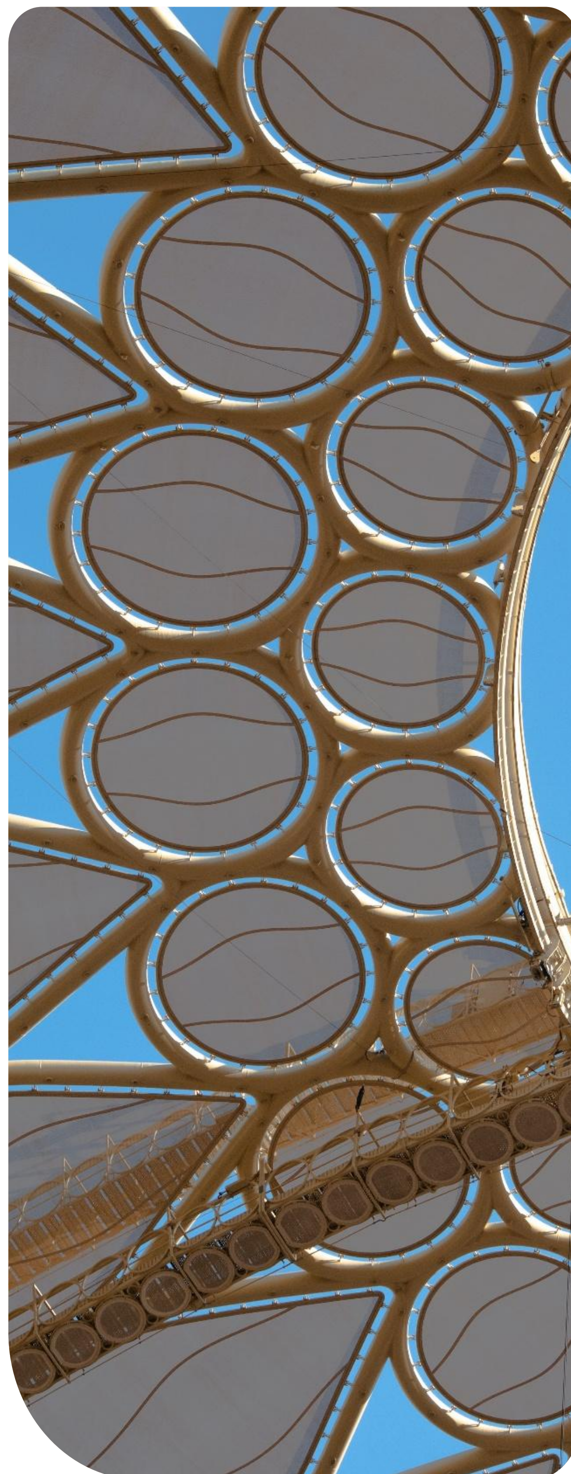
Get ready for IFRS 18

The new financial statements presentation and disclosure standard

January 2025

Entities should begin preparing for IFRS 18 'Presentation and Disclosure in Financial Statements' sooner rather than later. Changes from IAS 1 'Presentation of Financial Statements' could have a significant impact on the financial statements

In April 2024, the International Accounting Standards Board (IASB) issued the new accounting standard, IFRS 18 'Presentation and Disclosure in Financial Statements'. This will replace the existing IAS 1 'Presentation of Financial Statements' standard that has been in use for many years.

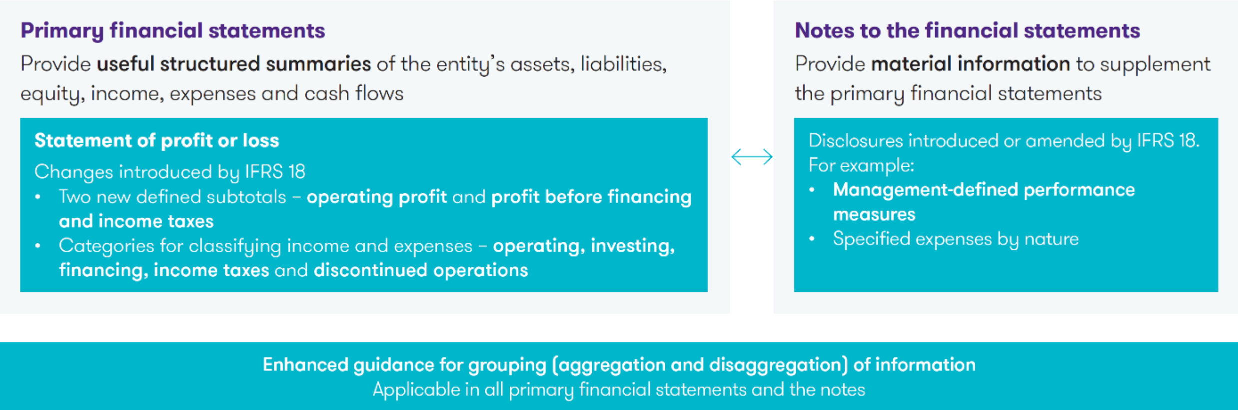


On the surface this new Standard may appear straightforward, setting out a new presentation requirement for the statement of profit or loss, and providing new definitions and disclosures related to non-IFRS performance measures. However, the details of these new requirements can lead to potential challenges that reporting entities will need to deal with to properly apply the new Standard.

While entities are dealing with a wide range of new reporting requirements, from international tax reform to sustainability reporting, changes to the presentation and disclosures of financial statements may not currently be at the top of their priorities. However, given the potentially pervasive changes brought about by IFRS 18, getting ready for IFRS 18 implementation should be prioritised.

This publication sets out a high-level overview of IFRS 18's new requirements, along with practical insights into the application challenges. For some entities in particular, this will highlight the need to begin their transition journey early and ensure that they are fully prepared for mandatory application for reporting periods beginning on or after 1 January 2027 (with retrospective restatement of comparatives).

Summary of key changes



General requirements for the financial statements and information disclosed in the notes have been carried over from IAS 1. There are some limited changes to specific requirements for the statement of cash flows and statement of financial position, however the statement of comprehensive income and statement of changes in equity remain unchanged.

Update to the Statement of Profit or Loss

IFRS 18 has given the statement of profit or loss a major facelift. It requires two new subtotals above the required 'Profit or Loss' total, and divides income and expenses into five distinct categories.

Categories and subtotals in the statement of profit or loss

1 Operating
Income and expenses that are not classified in the other categories

A Operating profit or loss

2 Investing
Income and expenses from:

- investments in associates, joint ventures and in consolidated subsidiaries
- cash and cash equivalents
- other assets that generate a return individually and largely independently of the entity's other resources

B Profit or loss before financing and income taxes

3 Financing

- Income and expenses from liabilities that arise from transactions that involve only the raising of finance
- Interest income and expenses and income and expenses arising from changes in interest rates from liabilities that arise from transactions that do not involve only the raising of finance

4 Income taxes

5 Discontinued operations

Profit or loss

Categories of income and expenses

1. Operating
2. Investing
3. Financing
4. Income taxes
5. Discontinued operations

Although the operating, investing and financing categories may seem familiar from IAS 7 'Statement of Cash Flows', it is important to understand that these are not currently aligned to the categories in the statement of cash flows. The IASB have chosen not to align the IAS 7 definitions with IFRS 18 at this point, however this may be something that is considered as part of the IASB's ongoing research project into the statement of cash flows.

Although these may seem like straightforward changes, for many entities it will not be as simple as remapping a few of their general ledger accounts. Given that IFRS 18's classification of income and expenses is largely driven by the nature of the underlying assets and liabilities, rather than the nature of the income or expense itself, significant changes to existing systems and processes, or entirely new ones may be required.

Practical insight: Where entities have contracts or agreements with terms or covenants linked to existing profit or loss metrics, or remuneration policies based on achieving specified profit or loss measures , they will need to assess whether contracts need to be amended to reflect new presentation set out in IFRS 18.

The message to preparers is therefore to start planning early, and to assess the potential impacts that they will face.

New subtotals required

IFRS 18 introduces two new subtotals which must be reported above the usual "profit or loss" total.

A. Operating profit or loss

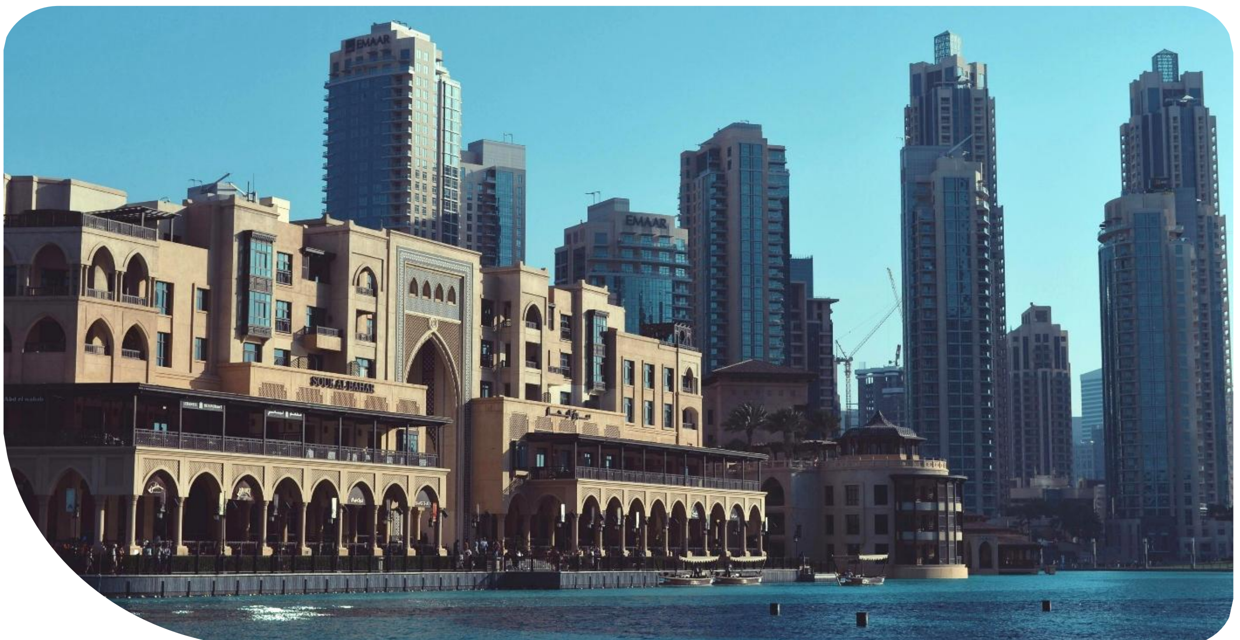
This subtotal comprises all income and expenses classified in the operating category (see below for further detail). It is important to note that the operating category includes but is not limited to income and expenses from an entity's main business activities, including items which management may consider volatile or non-recurring.

> **Practical insight:** As the operating profit or loss subtotal includes more than the 'core' business income and expenses, this may increase appetite for reporting non-IFRS performance measures. These will need to be assessed in line with new guidance in IFRS 18 on management-defined performance measures (MPMs) which we will cover later in this publication.

B. Profit or loss before financing and income tax

This subtotal is made up of operating profit or loss, together with all income and expenses classified in the investing category. Given the new definitions of the financing and investing categories, this subtotal may differ from the commonly used earnings before interest and tax (EBIT) measure. Again, this may increase the number of entities reporting non-IFRS measures. IFRS 18 does allow entities to present additional subtotals, however it includes specific requirements for the presentation of additional line items and subtotals.

These are only permitted when they are necessary to provide a useful structured summary of the entity's income and expenses.



Classifying income and expenses

Under the new requirements of IFRS 18, items of income and expense are not classified based on their own nature, but rather they are classified based on the nature of the asset, liability or transaction from which they are derived. For example, take impairment. Where previously this may have been presented as a non-operating item, under IFRS 18 impairment losses related to assets such as property, plant and equipment (PPE) and trade receivables will have to be classified in the operating category. Whereas (unless an entity invests as a main business activity) impairment related to other specified assets such as investments in associates or joint ventures will have to be classified in the investing category.

Classification in the operating category

The operating category under IFRS 18 effectively functions as a 'residual' category. Income and expenses will only be classified in the operating category if they do not meet the definitions of the investing, financing, income taxes or discontinued operations categories.

It is also important to understand, as mentioned previously, that the objective of the categories described by IFRS 18 are not the same as the objective of the equivalent categories in the statement of cash flows. For example, when applying IAS 7 to prepare the statement of cash flows, cash utilised to acquire PPE that will be used in the entity's operations must be classified in the investing category. However, when applying IFRS 18, in the statement of profit or loss, income and expenses generated from the use of PPE in the entity's operations must be included in the operating category.

This current misalignment is due to the fact that the IASB have prioritised the objectives of each individual primary financial statement and did not seek to align the definition of these categories between the profit or loss and statement of cash flows. That being said, the IASB has added a research project on the statement of cash flows to its current work plan, so further alignment may be possible in the future.

Classification in the investing category

The investing category includes income and expenses derived from a specifically defined set of assets. These are:

Asset type	Description
Investments in associate and joint ventures	This includes investments accounted for using the equity method, investments that an entity has elected to measure at fair value through profit or loss and investments in separate financial statements which are accounted for at cost.
Investments in unconsolidated subsidiaries	Similarly to investments in associates and joint ventures, this includes investments accounted for using the equity method, held at fair value through profit or loss, and accounted for at cost.
Cash and cash equivalents	We note here that the definition of cash and cash equivalents in IAS 7 specifically states that cash and cash equivalents are held to meet short-term cash commitments and not for investing purposes. This is therefore another key misalignment to be aware of.
Other assets that generate a return individually and largely independently of the entity's other resources	- Assets that typically meet this definition include debt or equity investments and investment properties (and receivables for rent generated by these properties). Income and expenses from these assets can include interest, dividends, rental income, depreciation and impairment losses and reversals, as well as fair value gains or losses and any income or expense incurred on derecognition or reclassification as held for sale. - Assets that typically do not meet this definition include PPE, assets that arise from providing goods or services (the income from which are included in the operating category) and loans to customers where the entity is providing financing as a main business activity. Income and expenses from such assets are included in the operating category. For example revenue from the sale of goods or services, interest income, depreciation of PPE etc.

There is an exception to the above classification requirements for when an entity invests in any of the described assets as its main business activity. For example, an asset management entity that collects investments from its customers and invests into a portfolio of investment properties. In this case income and expenses related to these assets and activities would be included in the operating category. The assessment of whether investing in these assets is a main business activity of an entity is a matter that may require significant judgement by management and will be dependent on facts and circumstances. This will be covered in more detail in the subsequent section "**Classification exceptions for entities that provide financing to customers or invest in assets as a main business activity**".

Classification in the financing category

The financing category contains income and expenses arising from financing transactions, and interest expenses on all liabilities. IFRS 18 contains detailed requirements and application guidance to help entities determine which income and expenses should be included in this category.

IFRS 18 sets general rules for classifying income and expenses relating to liabilities, distinguishing between liabilities that arise from transactions that involve only the raising of finance, and liabilities that arise from transactions that do not involve only the raising of finance, with exceptions to these rules and additional guidance for:

- hybrid contracts with host liabilities,
- derivatives and designated hedging instruments,
- issued investment contracts with participation features,
- insurance contracts when applying IFRS 17, and
- entities providing financing to customers as a main business activity.

General rules for income and expenses relating to liabilities

1. Liabilities that arise from transactions that involve only the raising of finance.

Income and expenses from such transactions must be classified in the financing category IFRS 18 clarifies that these are transactions in which an entity receives finance in the form of cash, the extinguishment of a financial liability, or the receipt of the entity's own equity instruments, and at a later date will return either cash or its own equity instruments. These include liabilities such as cash settled debt instruments, liabilities under supplier finance arrangements in which the payable for goods or services is derecognised, bonds that will be settled through delivery of the entity's own shares, and obligations for an entity to purchase its own equity instruments. Income and expenses for these items may include interest expense, fair value gains and losses, dividends on issued shares.

2. Liabilities that arise from transactions that do not involve only the raising of finance.

These can include items such as lease liabilities, contract liabilities recognised under IFRS 15 'Revenue from contracts with customers', defined benefit pension scheme liabilities etc. For these liabilities, only interest income and expenses and income and expenses arising from changes in interest rates can be included in the financing category. Other items of income and expenses will need to be included in one or more of the other categories.

Exceptions to the general rules and detailed application guidance on the following topics

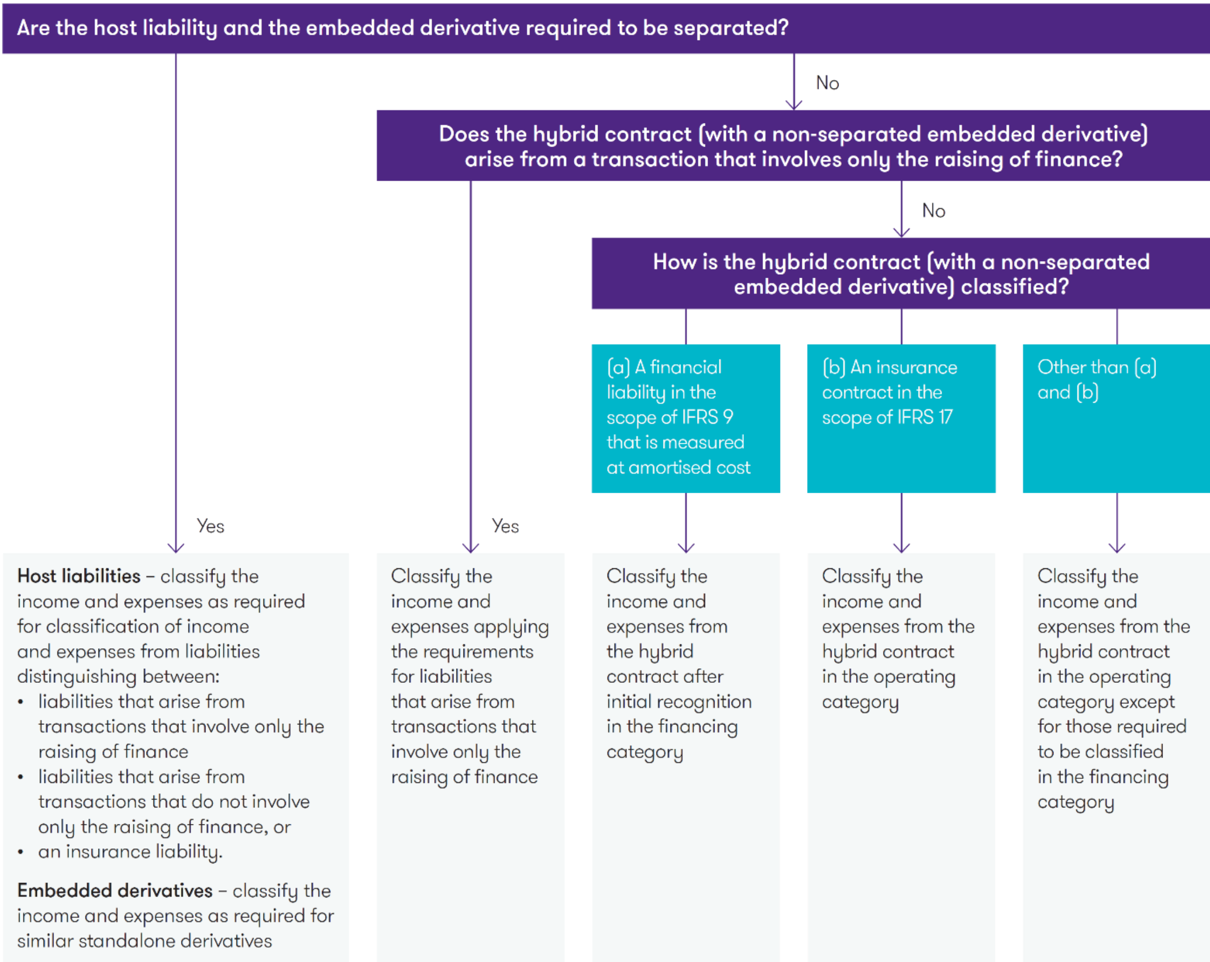
1. **Hybrid contracts with host liabilities.**

   Accounting for these contracts depends on whether the embedded derivative is separated from the host contract or not.

   a. If the derivative is separated from the host contract, income and expenses related to the host liability will be treated in line with the classification process we have set out above. Income and expenses relating to the derivative are treated in accordance with specific guidance for derivatives which is discussed below.

   b. If the contracts is not separated, it is considered as a whole, and the classification of income and expenses arising from it will be dependent on a number of factors, including whether the contract is in the scope of IFRS 9 'Financial instruments' or IFRS 17 'Insurance contracts'.

These considerations are set out in the following flowchart:



2. **Derivatives and designated hedging instruments.**

For derivatives the general rule is that gains and losses should be classified in the same category as the income and expenses affected by the risks the derivative is used to manage. For example, a derivative may be used to manage the risk of price increases for raw materials used in producing goods. In this case, the underlying risk is related to expenses in the operating category, so the gains and losses from the derivative should be included there as well. Alternatively, a derivative may be used to manage the risk of interest rates increasing on bank loans. Assuming that income and expenses arising from these loans are included in the financing category, gains and losses recognised on the derivative will also be included in financing. There is an exception to this general rule however, if it would lead to 'grossing up' or gains and losses, for example if a derivative is being used to hedge risks affecting items in multiple categories, in which case gains and losses on the derivative are classified in the operating category.

When a derivative is not used to manage identified risks, gains or losses should be included in the financing category if the derivative relates to a transaction involving only the raising of finance (unless the company provides financing to customers as a main business activity, and as such classified these items of income and expense in the operating category). Otherwise, it is included in the operating category.

3. **Issued investment contracts with participation features.**

These are types of income and expenses that are accounted for in accordance with IFRS 9. They are excluded from the financing category and are instead included in the operating category. An example of this type of contract could be an investment contract with participation features issued by an investment entity.

4. **Classification of income and expenses from insurance contracts when applying IFRS 17.**

   These are also included in the operating category, rather than in financing.

> **Practical insight:** For some entities, applying IFRS 18 may require more detailed record keeping compared to their current systems. Taking the impairment example, where before a general ledger may have only needed one account for recording impairment losses, an entity may now need multiple accounts for different classes of asset in order to have the granularity of data needed for the new presentation. Some entities may already have the capability in their current reporting systems to adapt to this, but for those that do not, significant changes to reporting systems and processes may be required. On initial application entities will also need to restate comparatives, and therefore new reporting systems will need to be in place at the start of the comparative year (ie 1 January 2026) in order to facilitate this.

As with the investing category, there is an exception to these requirements for entities that provide financing to customers as a main business activity. For these entities, such as banks or other credit providers, a detailed assessment of their activities will be required to establish that this is a main business activity. This may involve judgment in some cases but is a matter of fact based on evidence rather than an assertion.

Specific requirements for classifying foreign exchange differences

The general requirement for foreign exchange differences which arise from the application of IAS 21 'The Effects of Changes in Foreign Exchange Rates' is that the exchange differences should be classified in the same category as the income or expenses that have given rise to them. For example, if an entity has a receivable denominated in a foreign currency, the income from which they classify in the operating category, the foreign exchange differences arising when translating the receivable into the presentation currency will also be included in the operating category.

> **Practical insight:** For a transaction that does not only involve the raising of finance, as mentioned above, income and expenses may be split between multiple categories. Any foreign exchange differences associated with such a transaction however, is not split between categories. Instead, the entity must use judgement to determine which part of the transaction the foreign exchange differences relate to and the differences are allocated to the relevant category. There may be significant judgement involved in determining which part of a transaction the foreign exchange differences relate to, and therefore where they should be classified in the statement of profit or loss. This could apply to liabilities such as payables for goods or services denominated in a foreign currency which also include extended credit terms. We therefore recommend that entities with foreign operations begin assessing their arrangements early to identify any such challenging areas.

Classification exceptions for entities that provide financing to customers or invest in assets as a main business activity

Before classifying any income or expenses in the operating, investing or financing categories, an entity must assess whether it carries out either, or both, of the two main business activities specified in IFRS 18 that have classification exceptions. As we have touched on previously, these are:

- Investing in assets, and
- Providing financing to customers.

If an entity has one, or both of these main business activities, then IFRS 18 requires some income and expenses that would usually be categorised as investing or financing, to be included in the operating category.

The assessment of whether an entity has either or both of these main business activities will require significant judgement as this is not merely an assertion, but rather must be a matter of fact based on:

- **Evidence, in accordance with detailed application guidance.** In general, investing in assets or providing financing to customers is likely to be a main business activity if a reporting entity uses particular subtotals as an important indicator of operating performance. Where subtotals include income and expenses normally classified in the investing or financing categories, and these subtotals are used to explain operating performance externally or assess or monitor performance internally, this may indicate that investing in assets or providing financing to customers is a main business activity of the entity.

- **Facts at the time of the assessment.** If facts and circumstances change, and the conclusion of the assessment changes, the change in categorisation of income and expenses is applied prospectively, and prior periods are not restated.

In general, this assessment should be performed for the reporting entity as a whole. However there are circumstances in which the assessment needs to be more granular and as such will be more onerous. These circumstances are when an entity invests in associates, joint ventures and/or unconsolidated subsidiaries which are not accounted for using the equity method, and when investing in assets which generate a return individually and largely independently of other resources. In these cases the entity must assess whether it invests in these assets as a main business activity, on an individual asset basis, or using groups of assets with shared characteristics.

Practical insight: Although an entity does not need to assess whether it invests in cash and cash equivalents as a main business activity, the classification of income and expenses from cash and cash equivalents still depends on whether the entity has one of the two main business activities. Generally, an entity will classify income and expenses relating to cash and cash equivalents in the investing category. However, where an entity invests in assets as a main business activity it will classify income and expenses on cash and cash equivalents in the operating category. And where an entity provides financing to customers as a main business activity, income and expenses may be classified in the operating or investing category, depending on the type of transaction and accounting policy choices. If cash and cash equivalents relate to providing financing to customers as a main business activity, then the related income and expenses should be classified as operating, otherwise, there is an accounting policy choice to classify either as operating or investing.

Entities that have either, or both, of the two main business activities specified by IFRS 18, classify some income and expenses that would otherwise be classified in the investing or financing category in the operating category. IFRS 18 contains detailed guidance on which items can or must be classified as operating for these entities. Additionally, IAS 7 was amended such that classification of dividends and interest receivable and interest paid in the statement of cash flows must be consistent with how the corresponding income and expenses are classified in the statement of profit or loss in accordance with IFRS 18. Furthermore, while entities that provide financing to customers as a main business activity can avail themselves of an accounting policy choice in relation to the classification of certain income and expenses, that accounting policy choice must be consistent (where applicable) with that made for the classification of income and expenses from cash and cash equivalents, all of which will therefore require careful monitoring.

Income and expenses arising on derecognition of assets and liabilities

IFRS 18 includes detailed application guidance relating to the classification of income and expenses arising from the derecognition of assets and liabilities, the remeasurement of an asset or liability when designated as held for sale, and upon a change in use of an asset or liability. When dealing with single assets and liabilities this may be straightforward. The principle of IFRS 18 is that income or expense resulting from derecognition will be classified in the same category as would have been required immediately before recognition.

However, when dealing with a group of assets and liabilities this could become more complicated and therefore the Standard gives additional guidance on dealing with derecognition and changes in classification of groups of assets and liabilities.

Applying this guidance will again require detailed record keeping and information to enable entities to apply it correctly.

Challenges with transition

IFRS 18 will be mandatorily applied for the first time for reporting periods beginning on or after 1 January 2027, however it is required to be applied retrospectively, meaning that the comparative information should be restated. Early adoption is also possible. Many entities may find the transition challenging, especially if the information required has not previously been captured by their systems. In addition to changing the classification of income and expenses, IFRS 18 requires the following in the first year of applying IFRS 18:

- If an entity applies IAS 34 'Interim Financial Reporting' in preparing condensed interim financial statements – the condensed interim financial statements should present each heading the entity expects to use in applying IFRS 18, as well as the subtotals required by IFRS 18. This is specified in IFRS 18 despite the requirement of IAS 34 to only present at minimum the headings and subtotals included in the most recent annual financial statements. They must also include a reconciliation from the previously reported amounts to the restated amounts reported for the comparative periods.
- In the entity's annual financial statements – a reconciliation of each line item in the Statement of profit or loss for the comparative period, from the amounts previously presented under IAS 1, to the restated amounts presented when applying IFRS 18.
- As such, some entities may need to start their assessment of the impact of IFRS 18 early, in order to complete the assessment of which income and expenses must be reclassified, as well as to assess whether their existing systems and processes are adequate to respond to IFRS 18's requirements going forward. For those entities preparing interim financial statements, the IFRS 18 transition journey may need to start even earlier, in order to be in a position to have the required information for the disclosures for the first interim reporting date.

Management-defined performance measures

Given the prevalence and usefulness of alternative performance measures (APMs), IFRS 18 introduces new disclosure requirements in relation to the use of a narrowly defined set of APMs, referred to as 'management-defined performance measures' (MPMs).

While the use of APMs is subject to regulation in most jurisdictions, IFRS 18's objective is to increase transparency and discipline, by making MPMs subject to the same disclosure requirements regardless of the entity's jurisdiction. To meet this objective IFRS 18 requires entities to pull into a single financial statement note, all disclosures concerning measures identified by management as 'management-defined performance measures'. For these newly defined MPMs, IFRS 18 requires the disclosure of the income tax effect, as well as the effect on non-controlling interests, for each item disclosed in the reconciliation of MPMs to IFRS Accounting Standard subtotals or totals. This represents a new requirement, even for most jurisdictions with existing regulations on APMs.

The process of applying IFRS 18, from first identifying MPMs, to subsequently complying with IFRS 18's detailed disclosure requirements, should not be underestimated. Considerable judgement will be required in applying IFRS 18's new MPM disclosure requirements and it may necessitate significant changes to existing systems and processes, and/or new systems and processes.

Early investor communication will be key, given some of IFRS 18's disclosure requirements will be new, even for those entities in jurisdictions that are currently subject to regulation regarding APMs.

Practical insight: MPMs will be subject to audit. Given IFRS 18 requires MPMs to be disclosed in the financial statements, the MPM disclosures will be subject to the financial statement audit requirements in accordance with ISA 200 'Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing', as opposed to simply falling within the scope of ISA 720 The Auditor's Responsibilities Relating to Other Information. The audit requirement means that the MPM disclosures will be subject to a higher level of scrutiny, with more onus being placed on management, to ensure that MPMs are labelled and described in a clear and understandable manner that does not mislead users of the financial statements.

Challenges with the definition of MPMs

An MPM is defined by IFRS 18 as:

A subtotal of income and expenses that:

a. *an entity uses in public communications outside financial statements;*
b. *an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and*
c. *is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.*

Although this definition may seem narrow, there is a significant amount of application guidance which needs to be considered to determine whether an APM meets the definition of an MPM and therefore whether disclosures are required. There are a number of areas that can trip up entities in making these assessments.

What comprises a subtotal? A subtotal must include items of both income and expense. Therefore a 'total income' subtotal comprising the sum of operating, investing and financing income, but none of the expenses, is not considered a valid subtotal for an MPM. A financial ratio is also not considered an MPM, however if a total used as a numerator or denominator for a ratio would meet the definition if it were not part of a ratio, this can be considered an MPM, provided the rest of the definition is met.

What constitutes 'public communications'? Public communications are more broadly defined and can include things like management commentary, press releases and investor presentations. If it is communicating financial information to the public outside of financial statements, it may be considered a public communication. Although the definition can be broad, oral communications (including written transcripts of oral communications) and social media posts are specifically excluded. Entities only need to consider public communications related to the reporting period when identifying MPMs, therefore the list of MPMs reported on each reporting period may change. There are specific disclosure requirements when reported MPMs change, which are detailed in the what could go wrong section below.

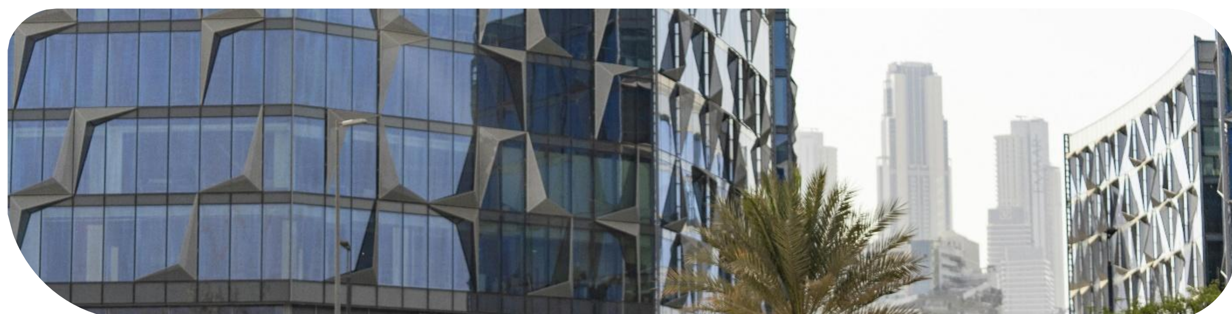
Practical insight: There is an exception to the rule that an entity should only consider the current reporting period when identifying public communications. When an entity routinely issues public communications after the date of issue of its financial statements as part of its financial reporting process, then they must also consider public communications related to the previous reporting period when identifying MPMs.

An aspect of performance of the entity as a whole. MPMs cannot just reflect the performance of part of an entity. For example, a subtotal relating to one geographic location of a worldwide business is unlikely to represent the whole entity, so would not be considered an MPM. Determining whether a measure relates to an aspect of the financial performance of the entity as a whole may require significant judgement. For example, in some cases, a subtotal related to a reportable segment defined by IFRS 8 'Operating Segments' will not be an MPM. However, if the reportable segment contains a single main business activity of the entity, and a subtotal of income and expenses from that segment is presented in the statement of profit or loss, that could suggest that it does provide information about an aspect of performance of the entity as a whole, and therefore is an MPM. Entities will need to carefully consider each performance measure that they are reporting to assess whether it will meet this aspect of the definition of an MPM.

Specifically excluded subtotals. IFRS 18 lists specific subtotals that are not considered MPMs. This includes profit or loss before income taxes, operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36 'Impairment of Assets', profit or loss from continuing operations and gross profit or loss or similar subtotals (for the full list please refer to the Standard). In relation to gross profit or similar, IFRS 18 specifies that a subtotal which consists only of one type of revenue and directly related expenses, such as gross profit or net interest income, are not considered MPMs.

Practical insight: Identifying subtotals that may meet tHowever,of an MPM may be complex and differences can be subtle. For example, if an entity were to define a measure of EBITDA as operating profit or loss before depreciation, amortisation and impairments, as noted in IFRS 18, this would not be an MPM. However if the earnings measure used as the starting point of that subtotal also included items of income and expenses that were classified in the investing category, then it could meet the definition of an MPM. Management need to carefully assess each subtotal that is being considered to determine if it meets the definition.

Any APM that meets the definition is considered an MPM, whether or not it is presented in the statement of profit or loss. A subtotal An entity needs to consider all communications and subtotals presented to identify MPMs If entities do not fully consider the application guidance and correctly identify MPMs, there are multiple issues that can arise. An entity may miss MPMs that need to be reported, causing a completeness issue with their disclosures. They may needlessly prepare disclosures for APMs that do not meet the definition of MPMs, creating more workload for annual reporting. They may also inadvertently create MPMs by communicating with the market without the appropriate governance measures in place. MPMs are therefore a key area that will need to be given detailed consideration when planning for initial application of the standard.



IFRS 18's rebuttable presumption on MPMs

When assessing whether a communicated subtotal meets the definition of an MPM, IFRS 18 presumes that a subtotal of income and expenses used in public communications outside its financial statements communicates management's view of an aspect of the financial performance of the entity as a whole. If management want to rebut this presumption they are required to have 'reasonable and supportable information' to demonstrate the basis for the rebuttal.

This rebuttal requires management to have some reasonable and supportable information, but does not require them to consider all available reasonable and supportable information. Therefore this may prove useful for management and provide some relief from making additional disclosures.

IFRS 18 includes extensive application guidance for the use of this rebuttable presumption. Management must be able to demonstrate that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole, and that the entity has another reason for using this subtotal in its public communications other than communicating management's view.

For example, if a subtotal is only included in a public communication due to a requirement of law or regulation or at the request of another external party, management do not use the measure internally to assess or monitor performance, and the subtotal is included without prominence, there may be reasonable and supportable information that would allow management to rebut the presumption, and the particular measure would not be identified as an MPM. For example, this may be the case if few references are made to the subtotal, the subtotal is not used to support management analysis of financial performance and management commentary explains that the subtotal does not communicate management's view and is only included in response to the requirement of law or regulation or at the request of certain users.

Significant judgement may be required when applying this rebuttal, and conclusions may change over time. As we have previously discussed, monitoring and reporting on MPMs will be an ongoing exercise, and entities applying the rebuttal will have to reassess this at each reporting date to ensure there is compliance with IFRS 18's requirements.

Challenges with the disclosure of MPMs

IFRS 18 requires that reporting entities bring together all of their MPMs, and provide disclosures in a single note to the financial statements. For each MPM that an entity has identified, they are required to disclose:

1. A description of the aspect of financial performance that the MPM communicates, along with an explanation of why management believe that the MPM provides useful information about the entity's financial performance.
2. How the MPM is calculated.
3. A reconciliation between the MPM and the most directly comparable subtotal required by IFRS 18, a subtotal listed in the Standard, or another total or subtotal specifically required by another IFRS Accounting Standard.
4. The income tax effect (along with a description of how this is determined) and the effect on non-controlling interest of each reconciling item identified above.
5. If the MPM is reconciled to a total or subtotal that is not presented in the statement(s) of financial performance, that total or subtotal must in turn be reconciled to the most directly comparable total or subtotal in the statement(s) of financial performance (note disclosure of the income tax and NCI impact of reconciling items in this 'secondary' reconciliation is not required).

These disclosure requirements are demonstrated by the illustrative example provided by the IASB below.

Example MPM disclosures (as included in IASB Illustrative Examples – Part 1, Note 2)

XYZ Group's management-defined performance measures

XYZ Group uses the management-defined performance measures adjusted operating profit and adjusted profit from continuing operations in its public communications. These measures are not specified by IFRS Accounting Standards and therefore might not be comparable to apparently similar measures used by other entities.

To provide management's view of XYZ Group's financial performance, operating profit and profit from continuing operations have been adjusted for items of income or expense that XYZ Group does not expect to arise for several future annual reporting periods. XYZ Group's management believes adjusting operating profit and profit from continuing operations for such items provides information that is helpful in understanding trends in XYZ Group's underlying profitability.

XYZ Group generally adjusts for these items of income or expense:

- impairment losses (or reversals thereof) of property, plant and equipment (including right-of-use assets) and intangible assets (for information related to impairments refer to Note X Property, plant and equipment, Note X Intangible assets and Note X Research and development expenses);
- restructuring expenses (for information related to restructuring expenses refer to Note X Employee benefits and Note X General and administrative expenses);
- non-recurring litigation expenses (for information related to litigation expenses refer to Note X Provisions and Note X General and administrative expenses);
- gains or losses on disposal of property, plant and equipment and of intangible assets (for information related to disposal of property, plant and equipment and intangible assets refer to Note X Property, plant and equipment, Note X Intangible assets and Note X Other operating income); and
- gains or losses on disposal of subsidiaries, associates and joint ventures.

XYZ Group assesses non-recurrence of litigation expenses on a case-by-case basis. XYZ Group generally categorises litigation expenses arising from intellectual property disputes, regulatory violations and employee claims as 'non-recurring'. This classification is based on XYZ Group's proactive approach of having in place measures designed to prevent such events from occurring.

Management-defined performance measures 20X2 (in thousands of CU)

	IFRS	Adjusting items			Management-defined performance measure
		Impairment losses	Restructuring expenses	Gains on disposal of property, plant and equipment	
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	—	

Impairment losses	Impairment losses incurred in **20X2** did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.
Restructuring expenses	The restructuring expenses in **20X2** are related to XYZ Group's restructuring programme 'Apollo **20X2**'. These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of **20X2**, which was 15.5%.
Gains on disposal of property, plant and equipment	The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of **20X2**, which was 16.5%.

What could go wrong?

- **Cross-referencing –** IFRS 18 requires that MPM information is presented in a single note. The IASB decided not to allow management-defined performance measure disclosure requirements to be met by cross-referencing to another document (although it does not explicitly prohibit it in the text of the Standard). Entities should therefore exercise caution before cross-referring to information contained elsewhere. Given IFRS 18's overarching objective to provide transparency and discipline when reporting MPMs, and the requirement to report information in a single note, these requirements are likely to be interpreted strictly by regulators.

- **Interaction with IFRS 8 Operating Segments –** For entities applying IFRS 8, when reportable segment information contains an MPM, management may disclose the information required by IFRS 18 in the same note as the rest of the segmental reporting. If this is done, the requirement to present all MPM disclosures in a single note can either be met by including disclosures for all MPMs in the segmental reporting note, clearly distinguished information required under IFRS 18 from information required under IFRS 8, or alternatively all information about MPMs (including any MPMs reported in the segmental reporting) can be presented in a separate note. Management may wish to carefully consider their financial reporting processes to avoid or minimise the duplication of disclosures. More detailed disclosure on MPMs may also lead to more scrutiny over segmental information. Management will need to be aware of this greater level of information being presented and ensure that their financial reporting as a whole is communicating a consistent message about the entity's performance.

- **Comparison with current APM jurisdictions –** As previously mentioned, there are jurisdictions globally that currently require some level of disclosure on APMs. However, complying with the requirements of IFRS 18 is likely to require a significant increase in the level of information being disclosed. Management should therefore be careful not to assume that any existing disclosures they have will be sufficient.

- **Changing MPMs over time –** If an entity reports a new MPM, stops using an MPM, or changes how it calculates a previously reported MPM or the income tax effects of reconciling items, disclosures are required explaining the change and the reason for the change, and restated comparative information reflecting the change must be disclosed. Management may need to consider the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to assess whether restatement is impracticable, and if it is, this must also be disclosed. We note that the existing threshold for justifying impracticability under IAS 8 is very high.

It is important to note that the IFRS 18 disclosures on MPMs are required for both annual and interim financial statements (if prepared). The MPM requirements relate to the period covered by the relevant financial statements and therefore MPMs included only in annual public communications would not require disclosure in interim financial statements.

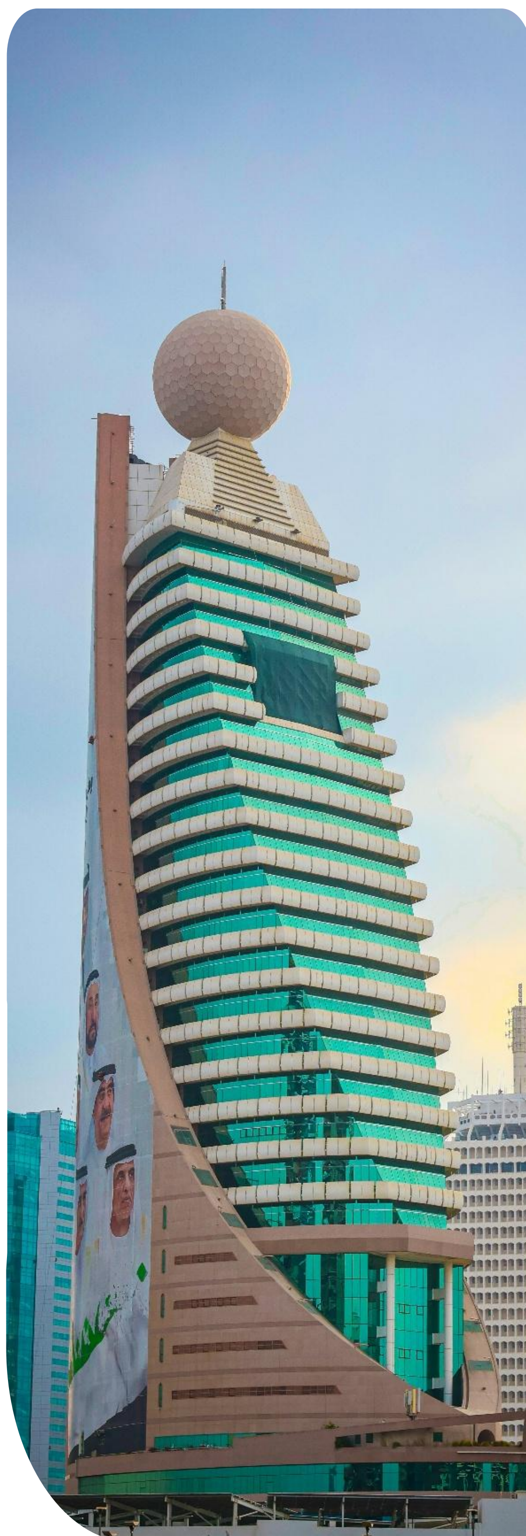
How to ease transition

IFRS 18 must be applied for the first time for annual reporting periods beginning on or after 1 January 2027, so in order to make a smooth transition to using the new MPM disclosures, management should consider prioritising:

- Early identification of APMs that are expected to meet the definition of MPMs and require disclosure in the first annual reporting period in which IFRS 18 is applied
- Assessing whether existing systems and processes are sufficient to appropriately identify MPMs and gather the information that will be required for disclosures
- Whether and when to make changes to the information that is currently provided to investors. Given IFRS 18's focus on public communications for identifying MPMs, regular communications may need to be altered to avoid creating a greater reporting burden.

New and enhanced guidance on aggregation and disaggregation of information in the financial statements

While IAS 1 contained principles for the aggregation and disaggregation of information in the financial statements, when applying IFRS 18 significant judgement may be required to ensure that the primary financial statements fulfil their new role of providing 'useful structured summaries' to give users more useful information.



Challenges with presenting the primary financial statements as 'useful structured summaries'

The concept that the primary financial statements (ie the statements of financial performance, financial position, changes in equity and cash flows) are 'structured summaries' is not new, as it is a concept in the Conceptual Framework for Financial Reporting. However, IFRS 18 takes this concept to a new level, which for some entities may take time to embed in their financial statement preparation process, and for other entities, may require significant changes to existing systems and processes, and/or new systems and processes. Below are a few key areas that entities should be aware of.

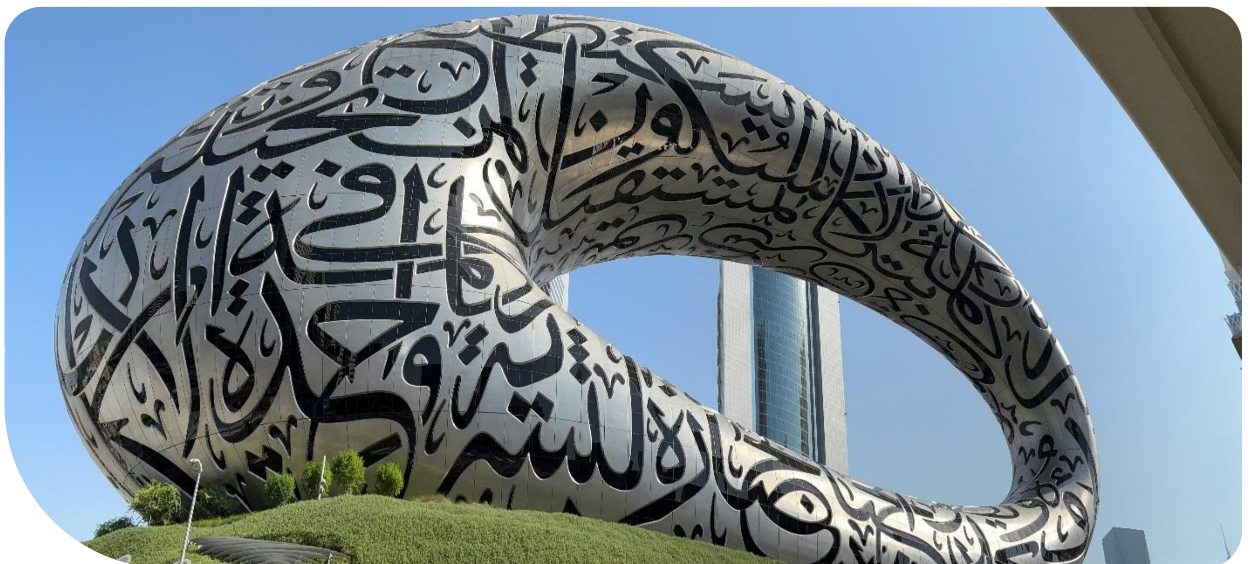
Specifying that the role of primary financial statements is to provide 'useful structured summaries' – IFRS 18 adds the word useful in this definition. Appendix A of the standard clarifies that a useful structured summary will provide an understandable overview of the entity's recognised assets, liabilities, income, expenses, equity and cash flows and allow users to make comparisons between entities and between reporting periods for the same entity and identify key areas where they might want to get more information from the notes. This definition underpins IFRS 18's objective in presenting primary financial statements so preparers need to be aware of this.

New and enhanced application guidance for determining what should be included – IFRS 18 provides detailed application guidance to help preparers apply their judgement in determining what information must be disclosed on the face of the financial statements or in the notes. Some key areas of guidance include:

An entity does not need to separately present a line item in primary financial statements if doing so is not necessary to provide a 'useful structured summary'. This is the case even if a line item is specifically required by IFRS Accounting Standards. However, if any line items required by IFRS 18 are not disclosed in the relevant primary financial statement, they must be disclosed in the notes unless the resulting information is considered immaterial. The general requirements for the structure of primary financial statements must also always be complied with when applying this judgement.

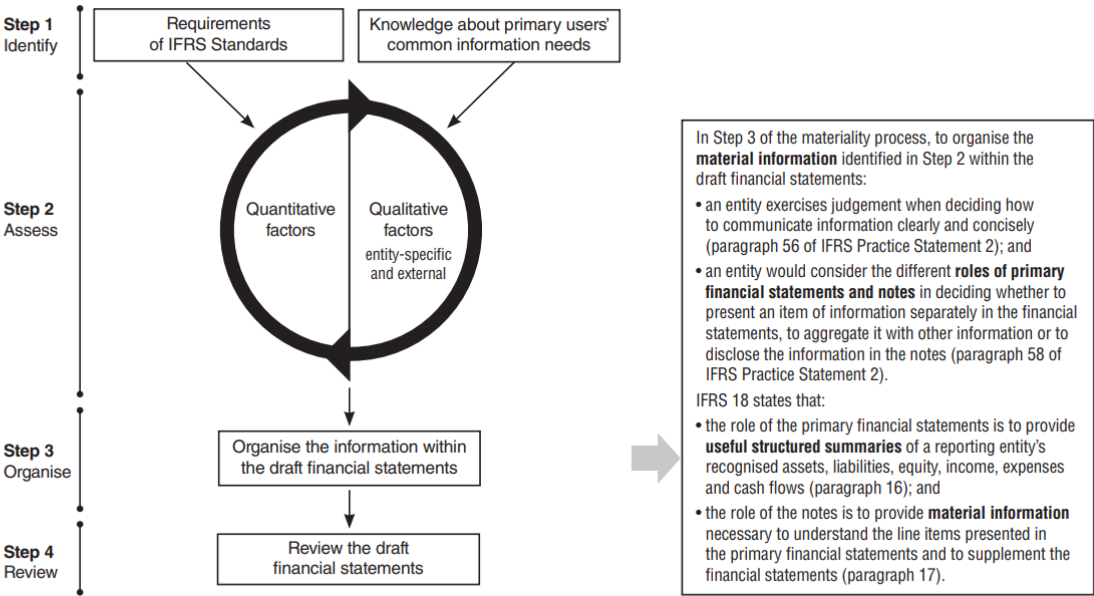
The Standard makes it clear that an entity must also present additional line items and subtotals if they are necessary for a primary financial statement to provide a 'useful structured summary'. These additional items must be measured in accordance with IFRS Accounting Standards, they must be compatible with the overall structure required for financial statements, they must be presented consistently from period to period, and they must not be given more prominence than totals and subtotals required by IFRS Accounting Standards.

Additional line items can be a disaggregation of required line items. IFRS 18 includes guidance on the type of characteristics which could be shared or not shared, and result in a conclusion to disaggregate information and present an additional line item. These characteristics include things like the nature of the item, its function within the entity's business activities, the measurement basis, geographic location etc.



Challenges with the interaction of the concept of materiality and presenting useful structured summaries

IFRS Practice Statement 2 'Making Materiality Judgements' contains useful guidance on making materiality judgements, and may help to decide whether an item should be presented separately in the primary financial statements, aggregated with other similar information, or disclosed in the notes. It states that an entity should consider the different roles of primary financial statements and notes.



An entity cannot include all material information in the primary statements. The role of primary statements is to provide 'useful structured summaries', and this will provide a basis for determining what material information should be included on the face of the primary statements and what should be included in the notes. The definitions help to clarify that information in the primary statements should be a useful summary, and additional information should be included in the notes, as long as that additional information is material.

Practical insight: To help illustrate this we can use the example of an entity that has undergone a major restructuring, and concluded that information about that restructuring is material. In order to decide whether to present a line item for restructuring expenses in the statement of financial performance, the entity needs to consider whether it contributes to a useful structured summary. The entity may consider that presenting a separate line item for restructuring expenses will help users of the financial statements to understand the increase in total operating expenses for the period. By presenting a separate line item this may also result in the other expense balances being more comparable to previous periods, enabling users to make more useful comparisons between periods. The entity could also conclude that the separate line item will help users to identify restructuring as an area that they may wish to seek more information about in the notes.

Challenges with aggregation and disaggregation of information

While IAS 1 included high level principles of aggregation and disaggregation of information in the financial statements, IFRS 18 introduces new specific principles for aggregating and disaggregating information in the financial statements, along with detailed application guidance. As such, for some entities the application of IFRS 18 may require changes to existing systems and processes, given an entity is required by IFRS 18 to comply with the following (unless doing so would override specific aggregation or disaggregation requirements in IFRS Accounting Standards):

- Classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics such as the nature of the item, its function within the entity's business activities, the measurement basis, or another characteristic such as liquidity, geographical location, persistence, size etc.
- Disaggregate items based on characteristics that are not shared.
- Aggregate or disaggregate items to present line items in primary statements that fulfil the role of providing 'useful structured summaries'
- Aggregate or disaggregate items to disclose material information in the notes
- Ensure that aggregation and disaggregation in the financial statements does not obscure material information.

If an entity does not present material information in the primary financial statements, it must disclose this in the notes.

As was also the case with IAS 1, IFRS 18 makes it clear that when applying these principles an entity must disaggregate items which have dissimilar characteristics where the resulting information is material. Some examples given in the standard of information that might need to be disaggregated include PPE disaggregated into classes as set out in IAS 16 'Property, Plant and Equipment', inventories disaggregated into items such as merchandise, production supplied, materials, work in progress etc. and trade payables disaggregating those which are part of supplier finance arrangements.

Aggregating and disaggregating information based on shared or dissimilar characteristics will require management judgement. IFRS 18 includes examples of characteristics that may be considered when making this judgment. Although there are multiple factors to consider, IFRS 18 is clear that just one dissimilar characteristic could result in information being disaggregated, if that resulting information is material. For example, an entity would not be able to argue that a set of information has more similar characteristics than dissimilar, and therefore not disaggregate, if information about the dissimilar characteristic is material.

Practical insight: In order to illustrate this concept, IFRS 18 uses financial assets (debt and equity instruments) as an example. Financial assets may have dissimilar characteristics based on the different measurement bases used (ie some are held at amortised cost and some at fair value). An entity may conclude that to provide a useful structured summary, it is necessary to disaggregate the information into two line items, being financial assets measured at amortised cost, and financial assets measured at fair value. Further to this initial disaggregation, financial assets measured at fair value may also have dissimilar characteristics, as some may be debt instruments and some may be classed as equity. The entity could then further conclude that as debt and equity instruments expose the entity to different risks, that it is necessary to further disaggregate the information into separate line items for debt and equity instruments in order to provide a useful structured summary. However, if the entity was to conclude that disaggregation of debt and equity instruments was not required to provide a useful structured summary, but the disaggregated information is still material, then they would need to disclose this information in the notes to the financial statements.

Challenges with the use of descriptive labels

IFRS 18 specifies that items presented in the primary financial statements, or disclosed in the notes should be described in a way that faithfully represents the characteristics of the item, and to do this an entity must include all descriptions and explanations necessary to allow a user of the financial statements to understand the item.

IFRS 18 includes specific guidance and disclosure requirements for labelling aggregated items depending on whether the aggregated material is material and/or immaterial. It also limits the use of the non-descriptive label “Other” when presenting information. Labelling aggregated information as “Other” is only allowed when an entity is unable to find a more informative label. To support this IFRS 18 includes examples of how an entity might find a more informative label, application guidance around the labels that must be used if there is not a more informative label than “Other”, and additional disclosure requirements around aggregated information for specific circumstances.

<table>
<tr><th>An item for which information is:</th><th rowspan="4">Could be aggregated with</th><th>Other items for which information is:</th><th>Disclosure requirements:</th></tr>
<tr><td>Material</td><td>Material</td><td>Disclose information about each item</td></tr>
<tr><td>Material</td><td>Not material</td><td>Disclose information about disaggregated items only if immaterial information would obscure material information</td></tr>
<tr><td>Not material</td><td>Not material</td><td>Not required to disclose information about disaggregated items, but must consider if the balance is sufficiently large, whether a user of financial statements could reasonably question if it includes material information</td></tr>
</table>

How might an entity find a more informative label than ‘other’?

- If an item for which information is material is aggregated with items for which information is not material, find a label that describes the item for which information is material
- If items for which information is not material are aggregated, find a label based on the similar or dissimilar characteristics upon which the aggregation is based.

When there is no more informative label than ‘other’ an entity must use a label that describes the aggregated item in as useful a way as possible (eg ‘other operating expenses’). Importantly, if an entity is describing an aggregation comprising of only items for which information is material, they must consider if the aggregated amount is sufficiently large that users of the financial statements could reasonably question whether it includes material information.

Practical insight: In providing a description or explanation of an item in the financial statements, it may be necessary for management to include definitions or meanings for specific terms used, as well as information about how they have aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows. This may be especially relevant if items are labelled or described in a way that is highly specific to the entity in question. Therefore entities with highly specialised or unique business activities should ensure they properly assess whether items are adequately labelled and described, such that they are properly understandable for users of the financial statements.

Challenges with the requirements in relation to operating expenses

In contrast to IAS 1, IFRS 18 now allows entities to classify and present operating expenses in the operating category of the statement of profit or loss, using the characteristics of the nature and/or the function of the expenses. This allows entities to use a hybrid approach where some expenses can be categorised by nature, and others by function.

While many may welcome this change, judgement is required in applying IFRS 18's detailed requirements and application guidance in relation to operating expenses. This may take some entities time to embed in their financial statement preparation process and for other entities, may require changes to existing systems and processes. Some key areas of challenge arising from the new requirements are:

- IFRS 18 does not permit expenses to be classified and presented using an arbitrary mixture of the characteristics of the nature and function of the expenses. Individual line items must comprise operating expenses aggregated only by nature or only by function. However, the same characteristic does not have to be used as the aggregation basis for all line items –some line items could be based on aggregating expenses of a similar nature, and others by aggregating expenses of a similar function. This may be the most appropriate solution in situations where an entity has two different main business activities. An entity must consider what level of aggregation for operating expenses provides the most useful structured summary. For example, whether aggregating expenses for resources consumed in administrative activities, such as human resources, information technology, legal and accounting and presenting them in a line item labelled as 'administrative expenses' would provide the most useful structured summary.

- IFRS 18 includes detailed principles around classifying and presenting operating expenses using the nature of the expenses, for example raw material expense ('nature expenses') and/or the function of the expense, for example cost of sales. It provides much more detailed guidance around the use of nature versus function than IAS 1 did previously, with the focus being providing the most useful structured summaries. It also requires that each line item is clearly labelled to identify what expenses are included.

- When an entity presents expenses classified by function, IFRS 18 include detailed requirements for disaggregation and labelling of this information:
  - when providing a cost of sale line item, IFRS 18 requires that this includes the total of inventory expenses as described in IAS 2 Inventories
  - When classifying expenses by function, entities must disclose a qualitative description of the nature of expenses included in each function line item.
  - Entities classifying one or more line items by function must also disclose in a single note the total for each of five specified expenses by nature. IAS 1 required disclosure of three of these, namely depreciation, amortisation and employee benefits, but IFRS 18 now also requires disclosure of impairment losses (and reversals thereof) and write-downs of inventories (and reversals thereof). The amounts presented or disclosed do not necessarily have to be recognised as an expense in the period ie part, or all of the amounts could have been recognised as part of the carrying amount of an asset.
  - For each of the five specified expenses by nature, an entity needs to disclose the amount related to each line item in the operating category as well as a list of any items outside of the operating category which include amounts relating to the total. They must also give a qualitative explanation of amounts included in the carrying amount of assets.
  - When an entity classifies expenses by function and discloses the five totals of expenses by nature as described above, they are exempt from disclosing:
    - in relation to function line items presented in the operating category of the statement of profit or loss—disaggregated information about the amounts of nature expenses included in each line item beyond the information on the five specific items listed above.
    - in relation to nature expenses specifically required by an IFRS Accounting Standard to be disclosed in the notes—disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss beyond the information on the five specific items listed above.

This exemption only relates to the disaggregation of operating expenses, and as such it does not exempt an entity from applying specific disclosure requirements relating to those expenses in other IFRS Accounting Standards.

Consequential amendments to other IFRS Accounting Standards

While a number of IFRS Accounting Standards were amended as a consequence of the release of IFRS 18, the most significant amendments were made to the following IFRS Accounting Standards:

IAS 7 'Statement of Cash Flows'

IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

IAS 33 'Earnings Per Share'

IAS 34 'Interim Financial Reporting'

IFRS 7 'Financial Instruments: Disclosures'

Entities must apply all of these amendments when they first apply IFRS 18. However, there is some nuance to the application of IAS 34 which is detailed below.

Amendments to IAS 7 'Statements of Cash Flows'

In order to make the Statement of Cash Flows more consistent and comparable, IAS 7 was amended:

- To require all entities to use the new operating profit subtotal as the starting point for the indirect method of reporting cash flows from operating activities, which will remove some reconciling items.
- To remove the presentation alternatives for cash flows related to interest and dividends paid and received. Dividends paid are always classified as cash flows from financing. For entities that do not invest in assets or provide financing to customers as a main business activity, interest paid is classified as cash flows from financing activities, and interest and dividends received are classified as cash flows from investing. For entities that invest in assets or provide financing to customers as a main business activity, the general principal is that the classification of dividends and interest received, as well as interest paid, in the statement of cash flows must be determined by referring to how the corresponding income and expenses are classified in the statement of profit or loss. However, an entity must classify the total of each of these cash flows (i.e., dividends and interest received, as well as interest paid) in a single category in the statement of cash flows.

Practical insight: When applying IFRS 18, an entity with a main business activity of investing in assets or providing financing to customers, may be required to classify dividends received, interest received and interest paid in more than one category in the statement of profit or loss. In this case, the entity must make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows

- To require the application of IFRS 18's general requirements for financial statements (including the requirements around aggregation and disaggregation and the structure of the notes) to also be applied to the statement of cash flows. This may mean that entities need to reconsider how items in their statement of cash flows are aggregated and disaggregated, as well as how they are labelled.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

IAS 8 has been retitled to IAS 8 'Basis of Preparation of Financial Statements', as the following requirements were removed from IAS 1 and inserted, unamended, into IAS 8 as opposed to being included in IFRS 18:

- Fair presentation and compliance with IFRS Accounting Standards
- Going concern
- Accrual basis of accounting
- Disclosure of selection and application of accounting
- Disclosure of sources of estimation uncertainty

The revised IAS 8 will be renamed from 1 January 2027.

Amendments to IAS 33 'Earnings Per Share'

IAS 8 has been retitled to

IAS 33 has been amended to include the following:

- It specified that (in addition to presenting basic and diluted EPS as required by IAS 33) entities are permitted to disclose in the notes additional amounts per share using a different measure of performance as the numerator in the earnings per share calculation. However, that numerator must be the amount attributable to ordinary equity holders of the parent entity of a total or subtotal of the statement of profit or loss as set out in IFRS 18, or an MPM as defined by the new requirements of IFRS 18 (see MPM section above).
- When an entity does choose to present an additional amount per share, they should:
  - disclose the additional basic and diluted amounts per share with equal prominence
  - calculate the additional amount using the same weighted average number of ordinary shares as would be required for the usual earnings per share calculation
  - only disclose the additional amount per share in the notes (ie. This cannot be presented in the primary financial statements), and
  - when the additional amount per share is based on an MPM, disclose all information that is required per the new MPM disclosures (refer to the MPM section above).

Amendments to IAS 34 ‘Interim Financial Reporting’

Amendments made to IAS 34 require:

- An entity preparing condensed interim financial statements must apply IAS 34 and the requirements in IFRS 18, in relation to aggregation and disaggregation, as well as the requirements in IAS 8, regarding 'Fair presentation and compliance with IFRS Accounting Standards', 'Going concern' and 'Accrual basis of accounting'
- The disclosures around MPMs (introduced by IFRS 18, and discussed in detail in the section above) should be included in interim financial statements.
- The amendments to IAS 34 are required to be applied when preparing the interim statements of the first year in which IFRS 18 is applied. (see section above on transition challenges).

Amendments to IFRS 7 ‘Financial Instruments: Disclosures’

The following requirements were removed from IAS 1 and inserted into IFRS 7 unamended (apart from editorial changes to reference relevant paragraphs in IAS 32 ‘Financial Instruments: Presentation’), as opposed to being included in IFRS 18:

- Disclosures in relation to puttable financial instruments classified as equity instruments
- Disclosures in relation to the reclassification of puttable financial instruments classified as equity instruments or other instruments that imposes an obligation to deliver a pro rata share of net assets only on liquidation that are classified as equity instruments. For any reclassification of amounts between financial liabilities and equity for such instruments, the amount, timing and reason for such reclassifications must be disclosed.

Effective date and transition

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. Entities that early adopt IFRS 18 are required to disclose that fact in the notes.

While IFRS 18 must be applied retrospectively applying IAS 8, entities are not required to disclose the quantitative information set out in IAS 8, ie entities do not have to disclose the amount of the adjustment to each financial statement line item or the adjustment to basic and diluted earnings per share in the current period.

However, for the comparative period, an entity must disclose a reconciliation between the restated amounts presented and the amounts previously presented for the comparative period applying IAS 1. This is also required for the comparative periods presented in interim financial statements prepared under IAS 34. Entities are permitted, but not required, to present similar reconciliations for the current period, as well as older comparative periods.

When first applying IFRS 18, an entity also has the option to change an election of how an investment in associate or joint venture is measured. If they are eligible to apply the IAS 28 'Investments in associates and joint ventures' exemption (which applies for investments held by, or indirectly though, an entity that is a venture capital organisation, mutual fund, unit trust or similar entity), an entity may change its election for measuring investments from the equity method to fair value through profit or loss in accordance with IFRS 9.

How can we help

We hope you find the information in this publication helpful in identifying some of the key challenges with IFRS 18. The implications of this standard for your financial reporting process could be significant, so we would encourage you to start thinking about this sooner rather than later to plan for adoption. If you would like to discuss any of the points raised, please reach out to our experts below from the Grant Thornton UAE team, or visit www.grantthornton.global/locations to find your local member firm.

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