
Accounting Standards Advisory Forum meeting

Date	December 2023
Project	Primary Financial Statements
Topic	Steps after publication of IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>
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Purpose of the session

The purpose of this session is:

1. to provide a project update, including an overview of the discussions with the IFRS Advisory Council in November 2023 where we plan to use the same slides to discuss steps after publication; and
2. seek input and advice from ASAF members on steps after publication to support implementation and consistent application of the forthcoming IFRS Accounting Standard.

Questions for ASAF members

1

Slides 5-19 include the high-level messages we plan to use in our communications strategy, coupled with specific examples.

- Do you have any comments on the high-level messages we plan to use in our communications strategy?

2

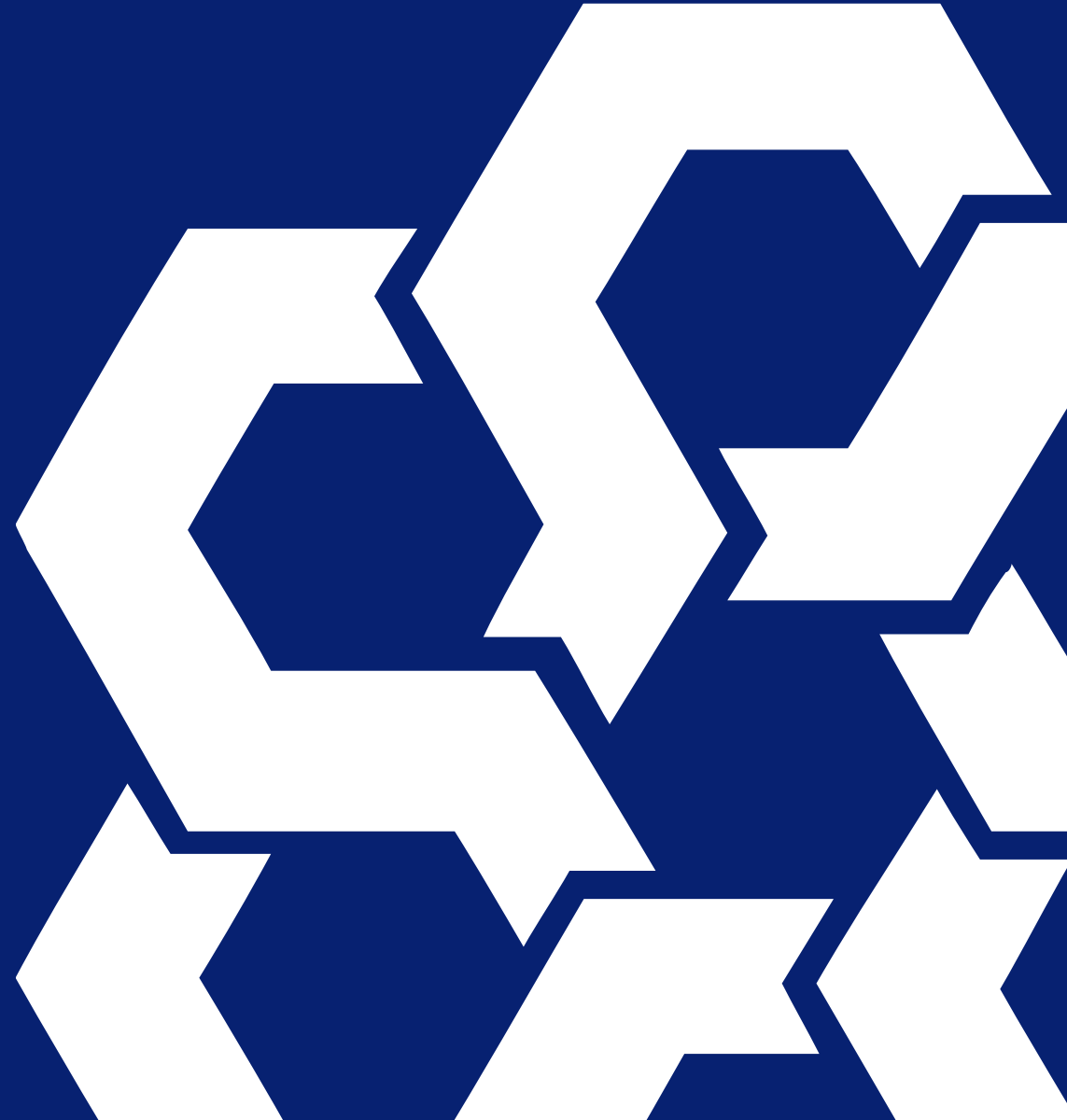
Slides 20-27 include a high-level overview of the purpose, timing and tools the IASB plans to use to support the implementation and consistent application of IFRS 18. Many stakeholders will also be developing their plans to support implementation and consistent application.

- Given that our resources and the resources of our stakeholders are limited, what areas should we strategically focus on to provide the most effective support for implementation and consistent application?
- Are there any examples of best practice that we should consider in developing our plans to support implementation and consistent application?

Background – status of the project

- The IASB has largely completed decision-making on the Primary Financial Statements project
- We are in the process of drafting IFRS 18 *Presentation and Disclosure in Financial Statements* which will replace IAS 1 *Presentation of Financial Statements*
- The IASB expects to publish the new IFRS Accounting Standard in Q2 2024

IFRS 18 – key messages



Key messages

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



Replaces IAS 1 *Presentation of Financial Statements*

Who will the requirements affect?



All stakeholders in all industries in jurisdictions that apply IFRS Accounting Standards

Will impact:

- how **companies** present and disclose information, but not their bottom-line financial performance
- the quality of information, including digital information, available for **investors**
- the scope of information subject to assurance by **auditors** and enforcement by **regulators**

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 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 tax

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

Some companies, such as banks and insurers, will classify income and expenses in their operating profit that for other companies would be classified in the investing or financing categories. This will allow such entities to report key performance metrics in operating.

Statement of profit or loss

Revenue

Cost of goods sold

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 the profit from associates and joint ventures

Gains on disposals of associates and joint ventures

Profit before financing and income tax

Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities

Profit before tax

Income tax expense

Profit for the year



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 (MPMs)

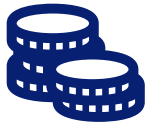
Investors' concerns

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

Examples of non-GAAP measures used today

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

MPMs



Subtotals of income and expenses not specified by IFRS Accounting Standards



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



Subset of measures referred to as 'non-GAAP' or alternative performance measures (APMs)

Disclosures for MPMs

IFRS 18 introduces requirement to disclose in a single note

- Statement that the MPM reflects **management's view**
- Explanation of **why** the MPM is reported
- **Reconciliation** back to IFRS-defined number
- Explanation of any **changes** to the MPM



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

Investors' concerns

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

IFRS 18 introduces

- enhanced requirements for grouping of information
- guidance on whether information should be in the primary financial statements or the notes
- disclosures about items labelled as 'other'

New guidance and disclosures will

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



IFRS 18 will introduce changes to

- Statement of profit or loss
- Statement of cash flows (smaller tweaks)
- Notes to the financial statements

The extent of change will vary depending on current practice, industry sector and jurisdiction

Primary financial statements



Statement of
financial
position
(balance sheet)



Statement of
profit or loss
(income
statement)



Statement of
other
comprehensive
income (OCI)



Statement of
changes in
equity



Statement of
cash flows



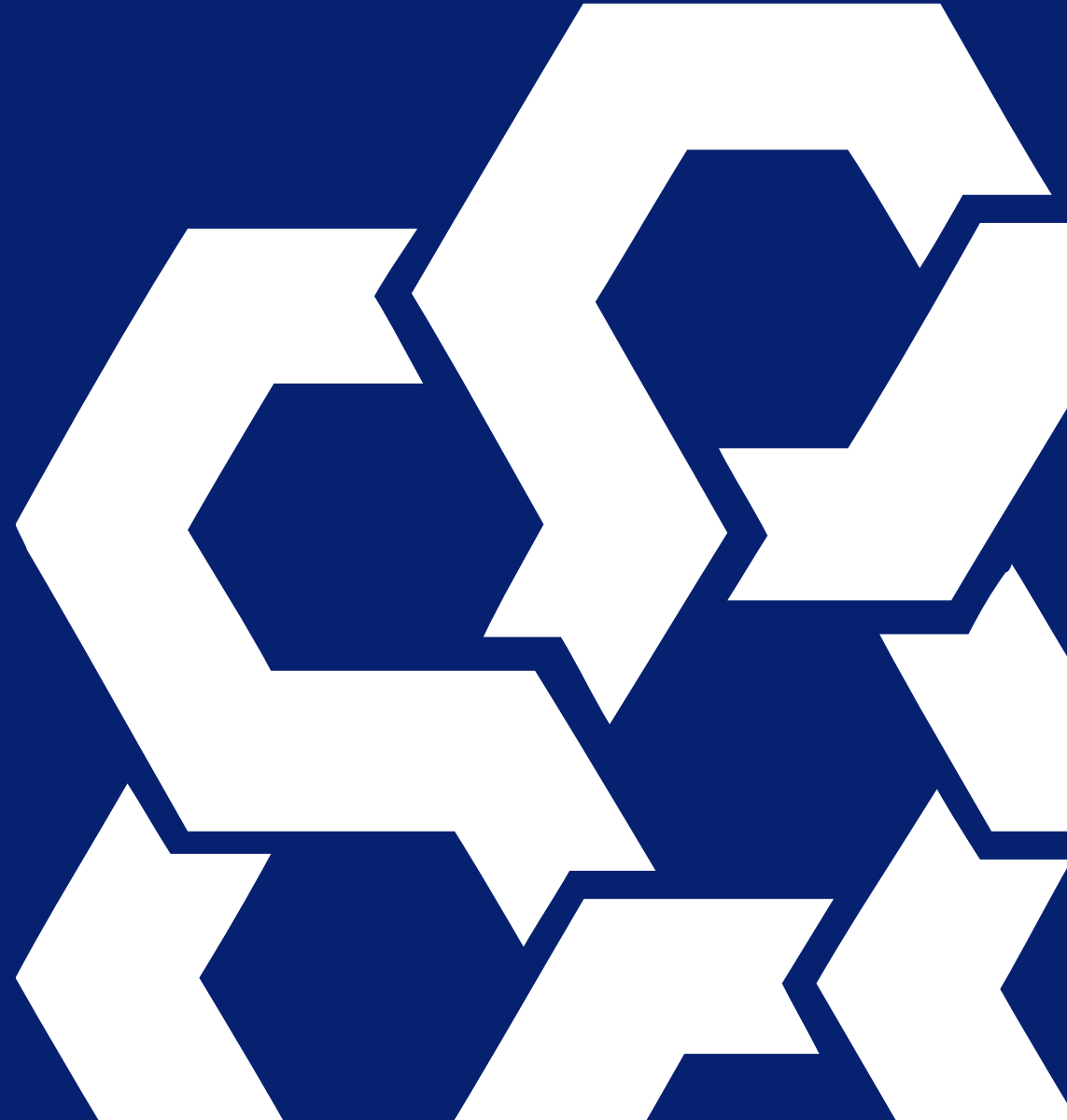
Notes to the
financial
statements

When will IFRS 18 come into force?



- 1 January 2027
- Early application permitted

IFRS 18 – supporting implementation and consistent application



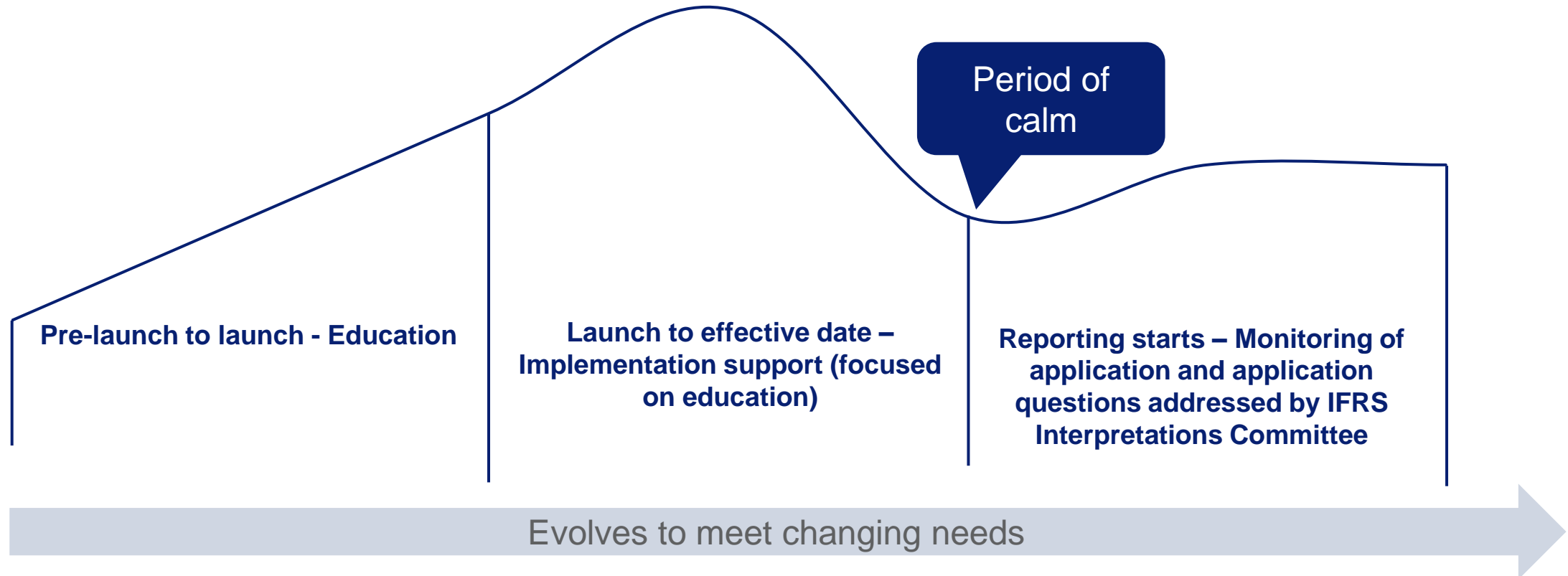
Our work won't stop once IFRS 18 is issued

Support for implementation and consistent application needs to

- be helpful and responsive
- evolve as needs change
- not unduly disrupt implementation



Support over implementation lifecycle

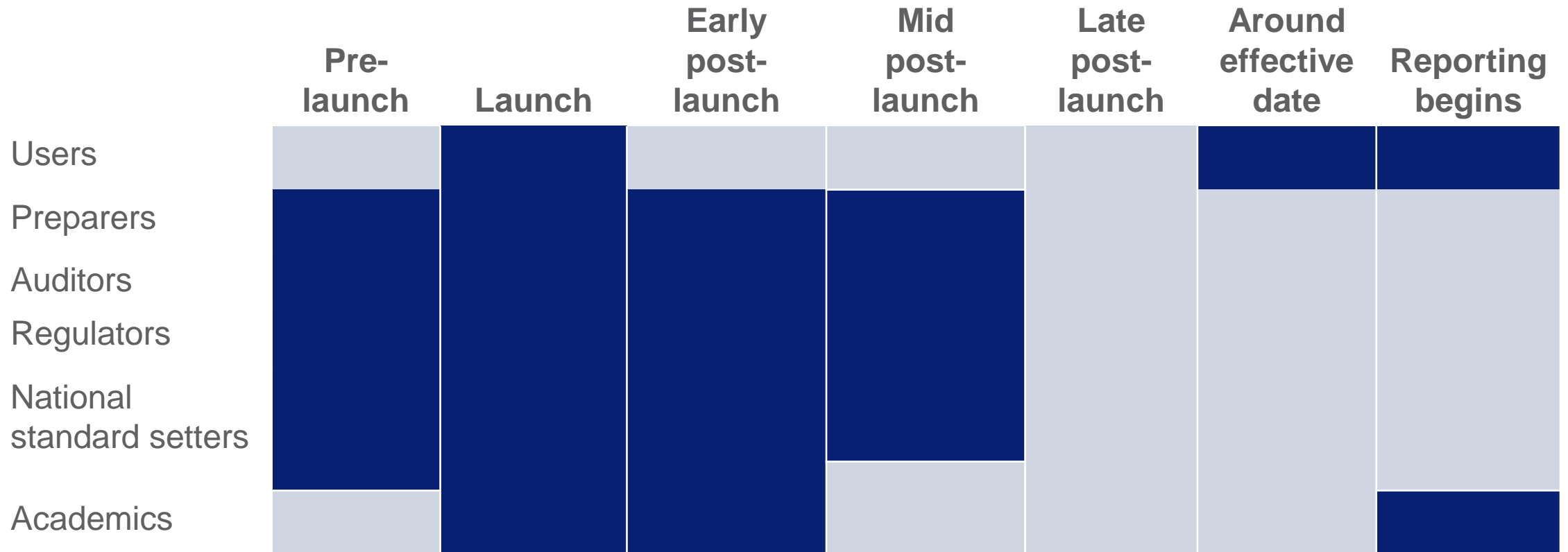


Focus of and timing of implementation support activities for IFRS 18

Education							
	Pre-launch	Launch	Early post-launch	Mid-post launch	Late-post launch	Around effective date	Reporting starts
Focus	Overview of what is coming so stakeholders can start preparing	Overview of IFRS 18 and materials published (slide 21)	Education on key aspects of IFRS 18 and likely effects	Education on implementation questions and experiences of early adopters	<i>[Period of calm]</i>	Refresher on what will be coming in financial statements	User education on changes to financial statements
Expected timing	H2 2023 – Q1 2024	Q2 2024	Q2 2024 – Q4 2024	2025 – early/mid 2026	mid/late 2026	Q1 2027	2027

Monitoring of implementation

Target stakeholders for implementation support activities for IFRS 18



 Denotes key stakeholders to focus on during each phase

IFRS 18 materials to be published

- Standard
- Basis for Conclusions
- Illustrative Examples
- Effects Analysis
- Project Summary
- Feedback Statement



Examples of tools to support implementation of IFRS 18

- **Education sessions and outreach**
- **Social media and dedicated webpage***



Education materials



Webcasts and webinars



Implementation questions

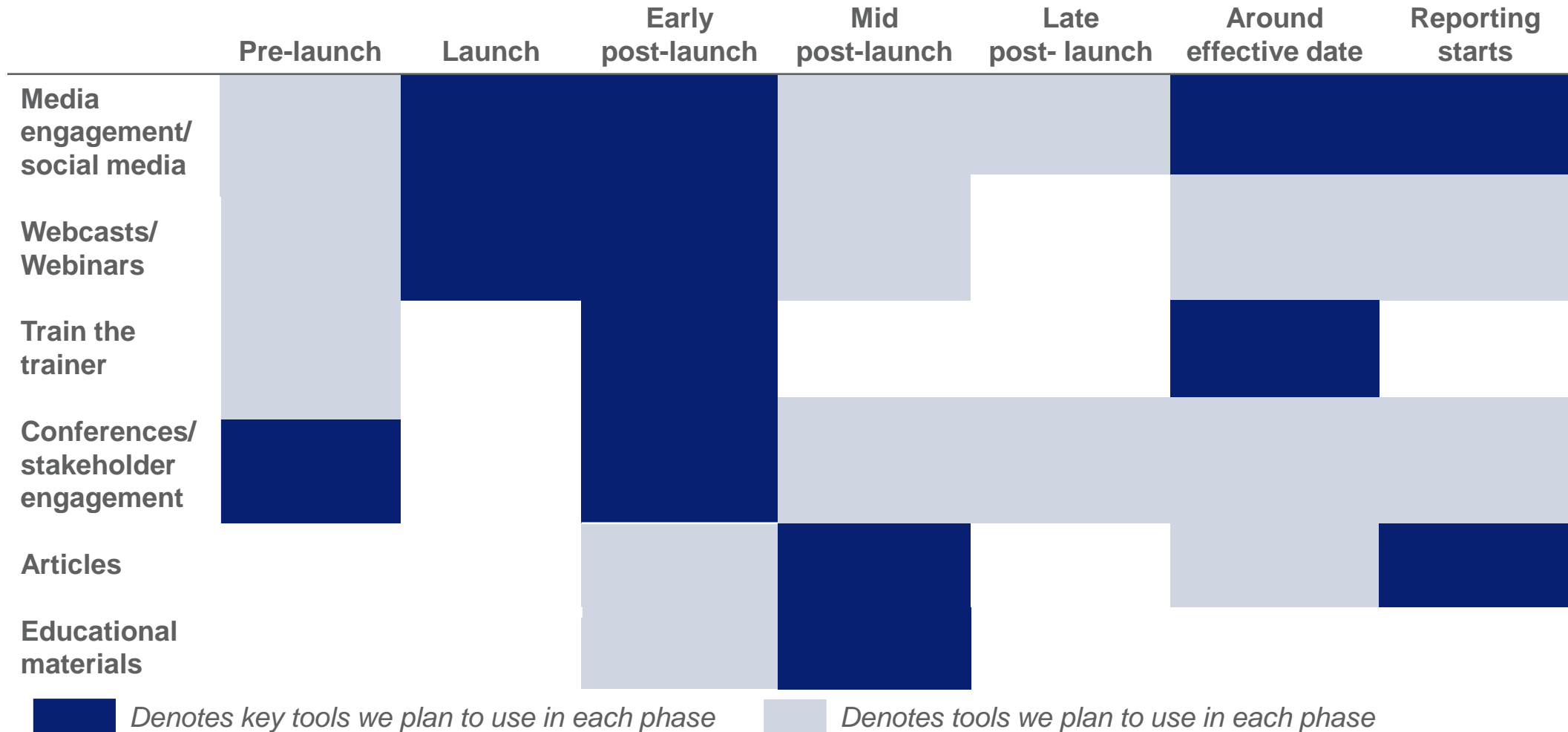


Articles

- **IFRS Interpretations Committee**

* Please see the [IFRS 16 Leases implementation page](#) for an example of what the webpage could include

Timing of tools to support implementation of IFRS 18



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