Accounting Standards Advisory Forum meeting

Date: December 2023
Project: Primary Financial Statements
Topic: Steps after publication of IFRS 18 Presentation and Disclosure in Financial Statements
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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

<table>
<thead>
<tr>
<th>Statement of financial position (balance sheet)</th>
<th>Statement of profit or loss (income statement)</th>
<th>Statement of other comprehensive income (OCI)</th>
<th>Statement of changes in equity</th>
<th>Statement of cash flows</th>
<th>Notes to the financial statements</th>
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</thead>
</table>
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

- Pre-launch to launch - Education
- Launch to effective date – Implementation support (focused on education)
- Reporting starts – Monitoring of application and application questions addressed by IFRS Interpretations Committee

Evolves to meet changing needs
Focus of and timing of implementation support activities for IFRS 18

### Education

<table>
<thead>
<tr>
<th>Focus</th>
<th>Pre-launch</th>
<th>Launch</th>
<th>Early post-launch</th>
<th>Mid-post launch</th>
<th>Late-post launch</th>
<th>Around effective date</th>
<th>Reporting starts</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Overview of what is coming so stakeholders can start preparing</td>
<td>Overview of IFRS 18 and materials published (slide 21)</td>
<td>Education on key aspects of IFRS 18 and likely effects</td>
<td>Education on implementation questions and experiences of early adopters</td>
<td>[Period of calm]</td>
<td>Refresher on what will be coming in financial statements</td>
<td>User education on changes to financial statements</td>
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| 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

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<th>Pre-launch</th>
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*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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<tr>
<th>Tool Type</th>
<th>Pre-launch</th>
<th>Launch</th>
<th>Early post-launch</th>
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<th>Late post-launch</th>
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<th>Reporting starts</th>
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<td>Media engagement/social media</td>
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*Denotes key tools we plan to use in each phase*  
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