Staff paper

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IASB® meeting

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Project	**Statement of Cash Flows and Related Matters**
Topic	**Improving the transparency of information about cash flow measures**
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Objective of this paper

1. At its May 2025 meeting, the IASB decided to assess potential ways to improve the transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards. At that meeting, the IASB specifically discussed considering an approach similar to that for management-defined performance measures (MPMs) in IFRS 18 *Presentation and Disclosure in Financial Statements*, which would be responsive to the stakeholder feedback and allow for progress on this topic in a timely manner.

2. The objective of this paper is to explore how the requirements for MPMs in IFRS 18 could be extended to include cash flow measures. In this paper we discuss:

   (a) the scope of cash flow measures that should be included in the extended MPM requirements (paragraphs 26–31);

   (b) how the definition of an MPM could be expanded to include cash flow measures (paragraphs 32–38); and

   (c) how the disclosure requirements for MPMs could be applied to cash flow measures (paragraphs 39–52).

3. While we think some aspects of the definition of an MPM in IFRS 18 and some disclosure requirements for MPMs in IFRS 18 require further analysis regarding their extension to cash flow measures, we ask the IASB to make some tentative decisions at this meeting.

4. Depending on the tentative decisions the IASB makes at this meeting and the feedback from the IASB on this paper, future papers will discuss:

   (a) what equivalent to ‘a subtotal of income and expenses’ could be used for cash flow measures for the definition of an MPM;

   (b) whether the MPM requirement to disclose, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance, should be extended to cash flow measures;

   (c) the requirements for subtotals relevant to reconciling cash flow measures to the statement of cash flows (including any possible exemptions on any subtotals);

   (d) any necessary amendments to the application guidance for the MPM requirements in IFRS 18 to reflect the fact that the MPM requirements have been extended to include cash flow measures (for example, changes to the wording);[1] and

   (e) the interaction of cash flow measures with the requirements in other IFRS Accounting Standards, if any.

Summary of staff recommendations

5. We recommend that the IASB:

   (a) extend the requirements for MPMs in IFRS 18 only to measures relating to the statement of cash flows that are not specified in IFRS Accounting Standards,

[1] Notably, any such amendments would not affect the requirements for MPMs that are subtotals of income and expenses.

subject to the decisions on the definition of an MPM and the specific disclosure requirements for cash flow measures;

(b) apply aspects of the definition of an MPM in IFRS 18 to the measures identified in (a) without change, specifically that an MPM is a measure that:

(i) an entity uses in public communications outside financial statements; and

(ii) 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;

(c) extend the rebuttable presumption for MPMs in IFRS 18 to cash flow measures;

(d) extend the objective of the disclosures for MPMs and the following disclosure requirements for MPMs in IFRS 18 to the measures identified in (a) without change:[2]

(i) the requirement for an entity to disclose information about all measures that meet the definition of management-defined performance measures in a single note and to disclose a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities;

(ii) the requirement for an entity to label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements;

[2] The requirements for MPMs in IFRS 18 would need to be amended to reflect the fact that they now include cash flow measures (for example, references to the 'statement(s) of financial performance' are likely to not be applicable to cash flow measures). Future papers will provide a detailed analysis on how the requirements for MPMs in IFRS 18 would need to be amended so that they can be applied to cash flow measures. Any such amendments would *not* change the requirements for MPMs that are subtotals of income and expenses, that is, the amendments would only relate to cash flow measures.

(iii) the requirement for an entity to disclose a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance;

(iv) how the management-defined performance measure is calculated;

(v) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards; and

(vi) the requirement that if an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

a. an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

b. the reasons for the change, addition or cessation.

c. restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of IAS 8.

(e) not extend the requirement for MPMs in IFRS 18 for an entity to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation to the measures identified in (a).

Structure of this paper

6. This paper is structured as follows:

   (a) background (paragraphs 7–22);

   (b) staff analysis and questions for the IASB (paragraphs 23–52);

   (c) Appendix A—Extracts from the IFRS 18 requirements on MPMs; and

   (d) Appendix B—Extracts from the IAS 33 *Earning per Share* requirements on earnings per share.

Background

7. The IASB considered the initial research findings which indicated assessing potential ways to improve the transparency of information communicated about cash flow measures as a priority topic for the users of financial statements (users) in making the decision to add this topic to the project work plan.

Recap of initial research findings

8. Many stakeholders requested improvements to the transparency of information about cash flow measures not specified in IFRS Accounting Standards, and in particular 'free cash flow' (FCF) type measures.

9. Most users said they construct a FCF type measure for various analyses such as valuing entities, analysing investment and growth potential, and assessing an entity's ability to generate shareholder returns and repay debt. Many preparers also said they

prepare a FCF type measure, either to help users in calculating such a measure or for internal management purposes.

10. Our financial statement analysis supports the feedback from preparers; with most entities analysed providing a measure similar to FCF. However, we found that entities' definitions of FCF are diverse and used for different purposes.

11. Many stakeholders said that because of the diversity of the definitions of FCF and the different uses of FCF, developing a common definition of FCF would be challenging. Therefore, some users suggested it might be useful if entities disclose more granular cash flow information to enable users to perform their own analysis using their own definition of FCF. Some other users suggested developing a subtotal to which varying definitions of FCF could be reconciled—using a label other than 'free cash flows' to identify that subtotal.

12. IFRS 18 requires disclosures for some entity-specific performance measures derived from the statement(s) of financial performance. Many stakeholders suggested the IASB explore extending a similar approach to performance measures based on the statement of cash flows (like FCF). They said such an approach would result in more transparent information to support users in performing their own analyses.

13. Some stakeholders also said it might be unclear whether a specific measure is an MPM applying IFRS 18 or a cash flow measure outside the scope of these requirements because of the composition of some measures. These stakeholders said having disclosure requirements for both MPMs as defined in IFRS 18 and cash flow measures would provide transparency for both types of measures, reducing the importance of the distinction between the two.

14. Some users said that having more granular information is also important for understanding the changes in net debt, specifically having more information on non-cash changes in assets and liabilities. Some users said that, in their experience, the requirements in paragraphs 44A–44E of IAS 7 *Statement of Cash Flows*, which are intended to provide such information for liabilities arising from financing activities do

not provide them with sufficient information. A few users said that more transparency is required to understand how management defines net debt.

15. A few users also said that creating linkages between information in the primary financial statements might improve the disaggregation of cash flow information and would be useful in understanding the changes in net debt.

Summary of key messages from the June 2025 joint CMAC-GPF meeting

16. At the June 2025 CMAC-GPF meeting, staff asked CMAC and GPF members for their views on extending the requirements for MPMs in IFRS 18 to cash flow measures not specified in IFRS Accounting Standards.

17. Most CMAC and GPF members said that extending the requirements for MPMs in IFRS 18 to include cash flow measures would improve the transparency of the information communicated about cash flow measures.

18. Most CMAC members said that adjusted cash flow measures relating to operating cash flows, specifically FCF type measures, are more important than other types of cash flow measures. CMAC members also said that cash flow measures that adjust investing or financing cash flows are not frequently provided. However, CMAC members said if entities include cash flow measures related to investing and financing activities in their public communications, providing disclosures about those measures would be useful.

19. Most CMAC members said they think that the MPM disclosure requirements would work generally well for cash flow measures. They did not identify any additional disclosures (other than those included in IFRS 18 for MPMs) that might be useful for the purposes of their analysis.

20. However, a few CMAC members said that if a reconciling item distinguishes between growth and maintenance capital expenditure, information about how the entity makes

this distinction would be useful, due to varying practices on distinguishing between growth and maintenance capital expenditure.

21. Most members said that disclosure of the income tax effect and the effect on non-controlling interests (NCI) for each item in the MPM reconciliation wouldn't apply to cash flow measures.[3]

22. Most GPF members said they already provide reconciliations and explanations for cash flow measures disclosed outside of the financial statements, but that it might be challenging to provide more detailed information.

Staff analysis and questions for the IASB

23. Given the feedback from many stakeholders that expanding the scope of MPMs in IFRS 18 to include cash flow measures would generally be a practicable approach to improving transparency on information about cash flow measures and given the lack of stakeholder demand for developing a new set of requirements for cash flow measures (paragraph 12), we focus our analysis on how the requirements for MPMs in IFRS 18 could be extended to include cash flow measures.

24. Specifically, our analysis considers:

    (a) what is the scope of cash flow measures that should be included in the extended MPM requirements (paragraphs 26–31);

    (b) how the definition of an MPM could be expanded to include cash flow measures (paragraphs 32–38); and

    (c) how the disclosure requirements for MPMs could be applied to cash flow measures (paragraphs 39–55).

[3] In a broader context, one CMAC member said that having information on cash flows 'attributable' to NCI would be useful.

25. Notably, our analysis (and recommendations for the IASB) do *not* affect the requirements for MPMs that are subtotals of income and expenses.

What is the scope of cash flow measures that should be included in the extended MPM requirements?

26. We heard from many stakeholders that FCF type measures that adjust operating cash flows are the most commonly used type of cash flow measure. However, some users said that having disclosures about cash flow measures related to investing and financing activities would be useful if they are provided in public communications (paragraph 18). Some users also said that more transparent information is useful to understand changes in net debt (paragraphs 14–15).

Cash flow measures based on statement of cash flows

27. We think the IASB should extend the requirements for MPMs in IFRS 18 to include measures relating to the statement of cash flows that are not specified in IFRS Accounting Standards, *without* restricting the scope to only include FCF type measures. Although FCF type measures are the most commonly used measures, our initial research identified that other measures relating to the statement of cash flows are sometimes included in entities' public communications and we heard from users that having more transparency on all cash flow measures communicated in public communications would be useful (for example, measures that adjust investing or financing cash flows, or measures which communicate a subset of cash inflows or cash outflows).

28. Including all such cash flow measures in the scope of MPMs would improve transparency of information about all cash flow measures used in public communications. Trying to limit the scope might lead to inconsistent application, complexities in creating an appropriate definition, and unintended consequences. Our analysis on extending the MPMs requirements to cash flow measures in the next sections are based on the assumption of this scope.

Net debt

29. We think the IASB should *not* extend the requirements for MPMs in IFRS 18 to include measures relating to the statement of financial position, such as 'net debt'.

30. Many users said they seek information to help them understand the changes in the assets and liabilities they consider to comprise net debt. This information includes non-cash changes in assets and liabilities. We plan to consider possible ways to improve information on the changes in assets and liabilities in our work on the topic of non-cash transactions. This work will consider what information that users seek on these transactions is not being provided applying IFRS Accounting Standards. Our work on possible ways to improve disaggregation of cash flow information is also expected to consider changes in assets and liabilities and links between information in the financial statements.

31. Although a few users said understanding how management defines net debt would be useful we think our work on non-cash transactions and disaggregation will consider the underlying information needs of users to better improve transparency regarding changes in net debt than considering requirements specific to the measure 'net debt'. Further, additional work beyond that considered in this paper would be needed to adapt the definition of an MPM and the related disclosure requirements to include net debt because it is a measure based on the statement of financial position.

Question for the IASB
1. Does the IASB agree with the staff recommendation to extend the requirements for MPMs in IFRS 18 only to measures relating to the statement of cash flows that are not specified in IFRS Accounting Standards, subject to the decisions on the definition of an MPM and the specific disclosure requirements for cash flow measures?

How the definition of an MPM could be expanded to include cash flow measures

32. Paragraph 117 of IFRS 18 defines an MPM 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, or specifically required to be presented or disclosed by IFRS Accounting Standards.

33. Paragraphs 119 and 120 of IFRS 18 state that an entity shall presume that a subtotal of income and expenses that it uses in public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, unless it has reasonable and supportable information available to rebut this presumption (see Appendix A—Extracts from IFRS 18 requirements on MPMs).

34. In this section, we discuss how the definition of an MPM in IFRS 18 could be expanded to include cash flow measures. Specifically, we discuss:

    (a) which aspects of the definition could be applied without change (paragraphs 35–36); and

    (b) which aspects of the definition require further analysis (paragraphs 37–38).

Aspects of the definition that could be applied without change

35. We think that the aspects '*used in public communications outside financial statements*' and '*used to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole*' of the definition of an MPM in paragraph 117 of IFRS 18 could be applied to cash flow measures without change. This is because the objectives of providing transparency to

measures already used in public communications outside financial statements applies equally to cash flow measures.

36. In addition, for the same reasons we think the rebuttable presumption can equally be applied to cash flow measures.

Aspects of the definition that require further analysis

37. To expand the definition of an MPM to include cash flow measures, we will need to develop an equivalent to 'a subtotal of income and expenses'. For example, a simple equivalent of 'a subtotal of income and expenses' might be 'a subtotal of cash inflows and outflows'. Such wording would be closely linked with the IFRS 18 definition of an MPM.

38. We think that the same basis should apply as is applicable for MPMs in IFRS 18—specifically, that the measure should be a 'subtotal'—and therefore, we think the word 'subtotal' should be part of the expanded definition of MPMs that includes cash flow measures. However, we think further work is necessary before deciding on developing wording that captures the measures that should be in the scope of the extended MPM requirements. Specifically, we will need to assess whether there would be any unintended consequences of using 'a subtotal of *cash inflows and outflows*' in conjunction with:

(a) the disclosure requirements from which cash flow measures would be exempt;[4]

(b) the subtotals that might be exempt from the disclosure requirements for MPMs; and

[4] A few stakeholders commented that sometimes it is difficult to clearly distinguish between measures based on the statement(s) of financial performance and measures based on the statement of cash flows because they might combine elements of cash flows and income and expenses. This distinction might be important if specific disclosure requirements apply differently for cash flow measures and subtotals of income and expenses.

(c) the disclosure requirement to reconcile an MPM to the most directly comparable total or subtotal.

Questions for the IASB
2. Does the IASB agree with the staff recommendation to apply aspects of the definition of an MPM in IFRS 18 to cash flow measures without change, specifically that an MPM is a measure that: a. an entity uses in public communications outside financial statements; and 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? 3. Does the IASB agree with the staff recommendation to extend the rebuttable presumption for MPMs in IFRS 18 to cash flow measures? 4. Is there anything we should consider in analysing further what equivalent to 'subtotals of income and expenses' could be used for cash flow measures?

How the disclosure requirements for MPMs could be applied to cash flow measures

39. In this section we discuss:

(a) the disclosure requirements for MPMs in IFRS 18 that could be applied to cash flow measures without change (paragraphs 41–44);

(b) the disclosure requirements for MPMs in IFRS 18 that require further analysis (paragraphs 45–48); and

(c) the disclosure requirements for MPMs in IFRS 18 that should be excluded for cash flow measures (paragraphs 49–52).

40. Paragraphs 121–125 and paragraphs B132–B142 of IFRS 18 set out the objective and the specific disclosure requirements for MPMs, including a requirement for their location (see Appendix A—Extracts from IFRS 18 requirements on MPMs).

Disclosure requirements for MPMs in IFRS 18 that could be applied to cash flow measures without change

41. Paragraph BC325 of the Basis for Conclusions on IFRS 18 explains that the IASB developed the disclosure requirements for MPMs to provide insight into management's view of an aspect of an entity's financial performance as a whole. Users of financial statements said information about MPMs is useful because it provides insight into how the business is managed, how management views the entity's financial performance, and the persistence of the entity's financial performance. Information about these measures is generally communicated outside the financial statements. However, users of financial statements raised concerns about the quality of the information provided about these measures.

42. Paragraph BC326 of the Basis for Conclusions on IFRS 18 further explains that the IASB agreed that MPMs can provide useful information about an entity's financial performance. Subtotals required by IFRS Accounting Standards provide useful information that is comparable between entities, and additional subtotals defined by management can provide entity-specific information. The IASB concluded that the MPM requirements in IFRS 18 will improve the transparency of these measures. Including such measures in the financial statements will make the measures subject to the same disclosure requirements, regardless of an entity's jurisdiction, and likely bring them within the scope of audit.

43. Our initial research findings and feedback at the June 2025 joint CMAC-GPF meeting indicate that users seek the same insight into management's view, transparency, and consistency of information about cash flow measures as for MPMs defined in IFRS 18. Thus, we think applying the same disclosure objective and requirements to cash flow measures, including for location, will resolve stakeholders' concerns regarding these measures.

44. The measures relating to the statement of cash flows are entity-specific measures on which stakeholders expect to have more disclosures to improve transparency similar

to MPMs in IFRS 18. Therefore, we think the IASB could extend the specific disclosure requirements for MPMs in IFRS 18 to cash flow measures on the same basis as is applied in IFRS 18 (which is consistent with the views expressed by CMAC and GPF members at the June 2025 joint CMAC-GPF meeting).

Disclosure requirements for MPMs in IFRS 18 that require further analysis

45. We think the requirement to disclose, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance requires further analysis as we need to consider whether this requirement could be adapted to provide useful information to users for cash flow measures.

46. Paragraph B137(a) of IFRS 18 requires an entity to disclose for each reconciling item in the reconciliation between the MPM and the most directly comparable subtotal specified in IFRS Accounting Standards, the amounts related to each line item in the statement(s) of financial performance. The IASB included this requirement to help investors better understand the reconciliation, because the information provided by the reconciliation could vary depending on the form of the reconciliation and the amount of detail included.

47. This requirement may also provide useful information on cash flow measures, but before we ask the IASB to make a tentative decision, we would like to do a further assessment of costs and benefits of such a requirement including:

    (a) whether the requirement would lead to useful information when reconciling items relate to cash flows presented using the indirect method and would therefore indirectly relate to multiple line items presented in the statement of cash flows;

    (b) whether the requirement would lead to useful information when reconciling items relate to cash flows presented using the direct method; and

    (c) whether compliance with such a requirement could cause undue costs, based on an assessment of the most typical reconciling items.

48. We plan to do this analysis in a future paper. In this paper, we ask the IASB whether they have any comments on the additional work we have identified on this requirement.

Disclosure requirements for MPMs in IFRS 18 that should be excluded for cash flow measures

49. We think the requirement on disclosing the impact of income tax and non-controlling interest (NCI) on reconciling items should not apply for cash flow measures because we do not expect that it would provide useful information to users.

50. Paragraph 123 of IFRS 18 requires an entity to disclose separately the effect of income tax and the amount attributable to NCI for each reconciling item between a management-defined performance measure and the most directly comparable total or subtotal specified by IFRS Accounting Standards. The IASB decided to require this disclosure because users said that understanding the impact of adjustments on earnings per share (EPS) is important.

51. We think this requirement might not provide useful information about cash flow measures because EPS is not generally calculated using cash flows. While paragraphs 10 and 33 of IAS 33 require considering profit or loss attributable to ordinary equity holders of the parent entity for the computation of EPS, the Standard does not discuss cash flow-based EPS (see Appendix B—Extracts from IAS 33 requirements on earnings per share). In our initial research findings, our financial statements analysis did not identify any measures that used cash flows to compute EPS.

52. Many CMAC and GPF members at the June 2025 joint CMAC-GPF meeting, also said that income tax and NCI disclosures would not be useful for cash flow measures. Therefore, we think the IASB should not extend this requirement to cash flow measures.

Questions for the IASB

5. Does the IASB agree with the staff recommendation to extend the objective of the disclosures for MPMs and the following disclosure requirements for MPMs in IFRS 18 to cash flow measures without change:
    a. the requirement for an entity to disclose information about all measures that meet the definition of management-defined performance measures in a single note and to disclose a statement that the management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities;
    b. the requirement for an entity to label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements;
    c. the requirement for an entity to disclose a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance;
    d. how the management-defined performance measure is calculated;
    e. a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards; and
    f. the requirement that if an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:
        i) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.
        ii) the reasons for the change, addition or cessation.
        iii) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a

management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of IAS 8?

6. Does the IASB agree with the staff recommendation to not extend the requirement for MPMs in IFRS 18 for an entity to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation to cash flow measures?
7. Does the IASB have any comments on the additional work we have identified on the requirement to disclose, for each reconciling item, the amount(s) related to each line item in the statement(s) of financial performance (paragraphs 45–48 of this paper).

Appendix A—Extracts from IFRS 18 requirements on MPMs

A1. This appendix includes:

(a) an extract of paragraphs 117–125 of IFRS 18 setting out the definition of an MPM and the disclosure requirements for MPMs; and

(b) an extract of paragraphs B136–B140 of IFRS 18 setting out the application guidance for the reconciliation of an MPM to the most directly comparable total or subtotal.

Extract of paragraphs 117–125 of IFRS 18

Identification of management-defined performance measures

117 A management-defined performance measure is a subtotal of income and expenses that (see paragraphs B113–B122):

(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, or specifically required to be presented or disclosed by IFRS Accounting Standards.

118 Subtotals of income and expenses that are not management-defined performance measure are:

(a) gross profit or loss (revenue minus cost of sales) and similar subtotals (see paragraph B123);

(b) operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36;

(c) operating profit or loss and income and expenses from all investments accounted for using the equity method;

(d) for an entity that applies paragraph 73, a subtotal comprising operating profit or loss and all income and expenses classified in the investing category;

(e) profit or loss before income taxes; and

(f) profit or loss from continuing operations.

119 An entity shall presume that a subtotal of income and expenses that it uses in public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, unless, applying paragraph 120, the entity rebuts the presumption.

120 An entity is permitted to rebut the presumption described in paragraph 119 and assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole, but only if it has reasonable and supportable information available that demonstrates the basis for the assertion (see paragraphs B124–B131)

Disclosure of management-defined performance measures

121 The objective of the disclosures for management-defined performance measures is for an entity to provide information to help a user of financial statements understand:

(a) the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and

(b) how the management-defined performance measure compares with the measures defined by IFRS Accounting Standards.

122 An entity shall disclose information about all measures that meet the definition of management-defined performance measures in paragraph 117 in a single note (see paragraphs B132–B133). This note shall include a statement that the

management-defined performance measures provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.

123 An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users of financial statements (see paragraphs B134–B135). For each management defined performance measure, the entity shall disclose:

(a) a description of the aspect of financial performance that, in management's view, is communicated by the management-defined performance measure. This description shall include explanations of why, in management's view, the management-defined performance measure provides useful information about the entity's financial performance.

(b) how the management-defined performance measure is calculated.

(c) a reconciliation between the management-defined performance measure and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards (see paragraphs B136–B140).

(d) the income tax effect (determined by applying paragraph B141) and the effect on non-controlling interests for each item disclosed in the reconciliation required by (c).

(e) a description of how the entity applies paragraph B141 to determine the income tax effect required by (d)

124 If an entity changes how it calculates a management-defined performance measure, adds a new management-defined performance measure, ceases using a previously disclosed management-defined performance measure or changes

how it determines the income tax effects of the reconciling items required by paragraph 123(d), it shall disclose:

(a) an explanation that enables users of financial statements to understand the change, addition or cessation and its effects.

(b) the reasons for the change, addition or cessation.

(c) restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so. An entity's selection of a management-defined performance measure is not an accounting policy choice. Nonetheless, in assessing whether restating the comparative information is impracticable, an entity shall apply the requirements in paragraphs 50–53 of IAS 8.

125 If an entity does not disclose the restated comparative information required by paragraph 124(c) because it is impracticable to do so, it shall disclose that fact.

Extract of paragraphs B137–B140 of IFRS 18

B136 Paragraph 123(c) requires an entity to reconcile each management-defined performance measure to the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. For example, an entity that discloses in the notes a management-defined performance measure of adjusted operating profit or loss shall reconcile that measure to operating profit or loss. In aggregating or disaggregating the reconciling items disclosed, an entity shall apply the requirements in paragraphs 41–43.

B137 For each reconciling item, an entity shall disclose:

(a) the amount(s) related to each line item in the statement(s) of financial performance; and

(b) a description of how the item is calculated and contributes to the management-defined performance measure providing useful information (see paragraphs B138–B140), if necessary to provide the information required by paragraphs 123(a) and 123(b).

B138 The description required in paragraph B137(b) is required if there is more than one reconciling item and each item is calculated using a different method or contributes to providing useful information in a different way. For example, an entity might exclude from a management-defined performance measure several items of expense, some because they were identified as outside management's control and others because they were identified as non-recurring. In such cases, disclosure of which items contributed to which type of adjustment would be required to explain how the management-defined performance measure provides useful information.

B139 A single explanation might apply to more than one item or might apply to all reconciling items collectively. For example, an entity might exclude several items of income or expense in calculating a management-defined performance measure based on an entity-specific application of 'non-recurring'. In such a case, a single explanation that includes the entity's definition of 'non-recurring' that applies to all reconciling items might satisfy the requirement in paragraph B137(b).

B140 Applying paragraph 123(c), an entity is permitted to reconcile a management-defined performance measure to a total or subtotal that is not presented in the statement(s) of financial performance. In such cases, an entity:

(a) shall reconcile that total or subtotal to the most directly comparable total or subtotal presented in the statement(s) of financial performance; and

(b) is not required to disclose the information required by paragraphs 123(d) and 123(e) for the reconciliation in (a).

Appendix B—Extracts from IAS 33 requirements on earnings per share

Basis earnings per share

10 An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Diluted earnings per share

30 An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.