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IFRS 18 Presentation and Disclosure in Financial Statements

Issued: April 2024 by the IASB.

Effective Date: Annual reporting periods beginning on or after 1 January 2027, with **retrospective application** (comparatives must be restated).

Replaces: IAS 1 Presentation of Financial Statements.

Objective: Enhance **comparability, transparency, and structure** in financial reporting by redefining how financial performance is presented and disclosed



Agenda

- Introduction
- Key changes and impact on implementation
 - Main business Activity
 - Aggregation and Disaggregation
 - Classification of Foreign Exchange Gains and Losses
 - Management Performance Measures (MPMs)



Committees involved in the implementation discussions

- **SAICA Accounting Practices Committee (APC) IFRS 18** working group which comprises of:
 - Regulators
 - Auditors
 - IFRS specialists
 - Academics
 - Preparers: Medical schemes; Banks; Insurance; Telecoms and Other
- SAICA Banking Accounting Matters a subcommittee of the Banking Project Group and Insurance IFRS 17 and 18 subcommittee of the Insurance Project Group have also had engagements which feed into the APC IFRS 18 working group.

1. Statement of Financial Performance – Major Overhaul

Five Categories of Income and Expenses:

- **Operating** – Default/residual category.
- **Investing** – Returns from investments, joint ventures, etc.
- **Financing** – Costs of raising finance (e.g. interest).
- Income Taxes
- Discontinued Operations

Three Mandatory Subtotals:

- Operating Profit or Loss
- Profit or Loss Before Financing and Income Taxes
- Profit or Loss (final total)

These subtotals are now standardized across entities, improving comparability.

Main business activity

- Level of **evidence required** when assessing entity's main activities
- **Regulatory assets**
 - For regulatory assets, the challenge is on the classification of the regulatory assets for banks, on whether these should be considered part of the main business activity if they are acquired due to regulatory requirements.
- **Diverse operations**
 - Assessment of main business resulting in judgement being applied as well as diversity in practice.
 - Complimentary operations, e.g. Where investment properties are held by an entity that is also a manufacturing entity, main business activity or treated as incidental.
 - Accounting policies to be used where there are two main business activities.
- Changes to main business activity and impact on IAS 8

2. Aggregation and Disaggregation

- Information presented on the face of the financial statements vs notes, **useful structured summaries**
- Use shared/non-shared characteristics - categories of Income and Expense
- Other: Additional disclosures applicable

- Concerns about the need for reclassification of comparatives due to disaggregation and aggregation requirements, and the potential **obscurity of important** information in the notes (materiality).
- Concerns that the **dynamic nature of business operations** would necessitate continuous reclassification of comparatives, leading to potential inconsistencies in financial statements (change in business activity).
- **From an insurance perspective**, the breakdown on the notes and whether insurance service expenses are function or nature which is a fundamental principle to be aligned with the requirements of the Standard. A paper was submitted to the *IFRIC on this issue to get clarity on the scoping of the paragraph and if insurance is included in that paragraph.*

Classification of Foreign Exchange Gains and Losses

- Questions were raised on the classification of foreign exchange gains and losses, particularly in relation to lease liabilities and intercompany loans.
 - In terms of **lease liabilities**, a question was raised on how foreign exchange gains and losses related to lease liabilities should be classified, considering whether they should be included in operating or financing activities.
 - On **intercompany loans**, the issue of classifying foreign exchange gains and losses on intercompany loans, which do not cancel out on consolidation, and how to determine their appropriate classification in the statement of financial performance was raised.
- It was suggested that from a group perspective, the classification should be performed from the **group's perspective**, considering the nature of the transactions and the terms of the loans, however, it was noted that the standard is silent on this issue, which will lead to potential diversity in practice.

3. Management defined performance measures (MPMs)

- Disclosure in **single a note** within the financial statements and **subject to audit**
- Requirement of specific disclosures and reconciliations

Regulatory disclosures

- Consideration on the potential need for regulatory disclosures, such as **headline earnings per share (HEPS)**, to be included as MPMs if they are mandated by local regulations, despite not being used by management as performance measures.
- Continued use particularly for entities like REITs that may not use HEPS as a performance measure.
- Consider raising a question to the IASB to consider including mandatory disclosures such as HEPS that are required in some jurisdiction in the same category in IFRS 18 to avoid non-disclosures.

THANK YOU

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CONNECT WITH US

17 Fricker Rd, Illovo, Sandton, Johannesburg,
2196 Private Bag X32, Northlands, 2116

Head Office

T: +27 (0) 86 107 2422

SAICA International

T: +27 (0) 86 107 2422

For more information
visit www.saica.org.za



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