
IFRS® Interpretations Committee meeting

Date	June 2026
Project	Management-defined Performance Measures—Hypothetical Income and Expenses (IFRS 18)
Topic	Initial consideration
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission asking whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure (MPM) applying IFRS 18 *Presentation and Disclosure in Financial Statements*.
2. The objective of this paper is:
 - (a) to provide the Committee with a summary of the matter;
 - (b) to present our research and analysis; and
 - (c) to ask the Committee whether it agrees with our conclusion that a standard-setting project is not needed to address the question and with our recommendation to publish a tentative agenda decision.

Structure of this paper

3. This paper includes:
 - (a) [background and summary of the submission](#) (paragraphs 5–13);

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- (b) [staff analysis](#) (paragraphs 14–39); and
 - (c) [staff conclusion and recommendation](#) (paragraphs 40–41).
4. There are three appendices to this paper:
- (a) [Appendix A—suggested wording for the tentative agenda decision](#);
 - (b) [Appendix B—excerpts from the Basis for Conclusions accompanying IFRS 18](#); and
 - (c) [Appendix C—submission](#).

Background and summary of the submission

Applicable requirements

5. Paragraph 117 of IFRS 18 contains the definition of an MPM:
- 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 [a list of subtotals of income and expenses that are not management-defined performance measures], or specifically required to be presented or disclosed by IFRS Accounting Standards.
6. Paragraph 119 of IFRS 18 contains a rebuttable presumption that a subtotal of income and expenses that an entity uses in public communications outside its financial

statements communicates to users of financial statements (users) management's view of an aspect of the financial performance of the entity as a whole.

7. Paragraphs BC357–BC361 of the Basis for Conclusions accompanying IFRS 18 (Basis for Conclusions)—reproduced in Appendix B to this paper—include some of the IASB's considerations in developing the requirements related to MPMs that are relevant to the question asked in the submission.

Summary of submission

8. The submission asks whether a performance measure that includes hypothetical income and expenses can meet the definition of an MPM in IFRS 18. The submission uses the phrase 'hypothetical income and expenses' to refer to income and expenses that have not been recognised and will never be recognised in a statement of financial performance.
9. The submission provides three examples of performance measures that include hypothetical income and expenses:
 - (a) Example 1—annualised rental income minus non-recoverable property expenses (such as service charges and ground rent). This measure calculates annualised rental income by multiplying the rental income determined applying IFRS 16 *Leases* in the last month of the reporting period multiplied by 12, which differs from the rental income recognised for the year.
 - (b) Example 2—net profit excluding the effects of a major crisis. This measure adjusts net profit calculated applying IFRS Accounting Standards to remove some expenses that were recognised and include estimated income and expenses that were not recognised.
 - (c) Example 3—gross profit for a reporting period determined as if a business combination happened at the beginning of the reporting period (pro forma gross profit). The pro forma gross profit comprises the revenue and cost of sales recognised and measured in accordance with IFRS Accounting Standards

for the combined entity adjusted as if the business combination had happened at the beginning of the reporting period.

10. The elements of the definition of an MPM that the submitter questions are whether a performance measure that includes hypothetical income and expenses:
 - (a) is ‘a subtotal of income and expenses’; and
 - (b) must faithfully represent ‘an aspect of the financial performance of the entity’—notwithstanding that the entity has not rebutted the assumption in paragraph 119 of IFRS 18 that the performance measure communicates management’s view of an aspect of the performance of the entity as a whole, the submitter asks whether an entity needs to assess if the performance measures reflects ‘an aspect of the performance of the entity’ independently from management’s view.
11. The performance measures described in the submission are assumed to meet all other criteria in paragraph 117 of IFRS 18 to be an MPM.
12. The submission outlines four views:
 - (a) View A—the performance measures described in the submission do not meet the definition of an MPM because those performance measures are not a ‘subtotal of income and expenses’. Hypothetical income and expenses did not or will not happen and do not meet the definition of income or expenses in paragraphs 4.68–4.69 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.
 - (b) View B—the performance measures are a ‘subtotal of income and expenses’ but do not meet the definition of an MPM because those performance measures cannot faithfully represent ‘an aspect of the financial performance of the entity’. Such performance measures reflect events or transactions that did not or will not happen.

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- (c) View C—the performance measures are a ‘subtotal of income and expenses’ and meet the definition of an MPM only if they faithfully represent ‘an aspect of the financial performance of the entity’.
 - (d) View D—the performance measures meet the definition of an MPM because they are a ‘subtotal of income and expenses’. IFRS 18 requires only that a measure communicates management’s view of an aspect of the performance of the entity as a whole and not that the measure faithfully represents an aspect of the performance of the entity.
13. [Appendix C](#) reproduces the submission, which provides further background about the question and the views identified by the submitter.

Staff analysis

14. Paragraph 5.19 of the IFRS Foundation [Due Process Handbook](#) (*Handbook*) states that the Committee assesses the need for a standard-setting project based on whether:
- (a) the matter has widespread effect—that is:
 - (i) the circumstance or transaction is prevalent, or is expected to be prevalent; and
 - (ii) there is diversity, or expected diversity, in the application of IFRS Accounting Standards that has, or is expected to have, a material effect on those affected;
 - (b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;
 - (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework*; and

- (d) the matter is sufficiently narrow in scope that the International Accounting Standards Board (IASB) or the Committee can address it efficiently, but not so narrow that it is not cost-effective for the IASB or the Committee and stakeholders to undertake the due process required to amend an IFRS Accounting Standard.

Assessment of paragraph 5.19(a)

15. The purpose of any information request we send to stakeholders is to understand whether a submission meets the criterion in paragraph 5.19(a) of the *Handbook*—that is, whether the matter set out in the submission has widespread effect. We consider:
 - (a) the prevalence, or expected prevalence, of the transaction or fact pattern submitted; and
 - (b) whether there is diversity, or expected diversity, in the application of IFRS Accounting Standards to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.
16. We did not send an information request related to this submission for the following reasons:
 - (a) most entities are in the process of applying—but have not yet applied—IFRS 18. Accordingly, stakeholders would be unable to comment on the existence of diversity in the application of the applicable requirements.
 - (b) the submitter notes:
 - (i) performance measures are widely used by entities in many jurisdictions; and
 - (ii) they are aware of entities concluding the requirements are unclear in respect of the matter raised in the submission as those entities work through their IFRS 18 implementation projects.
 - (c) we have had informal conversations with some stakeholders (including, for example, accounting firms and preparers) that have confirmed the points in

paragraph (b). Those stakeholders informed us of discussions they have had on the same question as that raised by the submitter, and these conversations confirmed that stakeholders understand the applicable requirements differently.

17. In our view, the evidence gathered indicates the matter could have widespread effect because:
- (a) performance measures used by an entity in public communications outside financial statements are common. Those measures could include hypothetical income and expenses.
 - (b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective. The outcome of the question affects whether those performance measures are MPMs applying IFRS 18 and, therefore, whether the disclosure requirements for MPMs in IFRS 18 apply.
18. In our view, the criterion set out in paragraph 5.19(a) of the *Handbook* is met for this matter. Therefore, we have proceeded to analyse the question submitted.

Assessment of paragraph 5.19(b)

19. Our analysis below considers:
- (a) subtotal of income and expenses (paragraphs 20–25); and
 - (b) faithful representation (paragraphs 26–35).

Subtotal of income and expenses

20. As paragraph 10 notes, the submitter asks whether a performance measure that includes hypothetical income and expenses is a subtotal of income and expenses as required by paragraph 117 of IFRS 18.

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21. The definition of an MPM in paragraph 117 refers to a ‘subtotal of income and expenses’. IFRS 18 does not define a ‘subtotal of income and expenses’ nor specify any restrictions on what income and expenses should be considered in measuring an MPM. The MPM definition does not restrict the income and expenses in the subtotal to only specific types of income and expenses such as, for example, those recognised in the financial statements.
 22. Paragraph BC357 of the Basis for Conclusions—reproduced in Appendix B—explains the IASB’s decision to place no specific restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. The IASB concluded such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.
 23. IFRS 18 uses ‘income’ and ‘expenses’ in the same manner as the *Conceptual Framework*. The *Conceptual Framework* defines the elements of financial statements (that is, assets, liabilities, equity, income and expenses) before discussing whether and how to recognise and measure those elements. An item can be an item of income or expense even if not recognised or measured in accordance with IFRS Accounting Standards.
 24. In addition, paragraph B134(b) of IFRS 18 requires an entity to provide information specific to MPMs if the calculation of the MPM ‘differs from accounting policies required or permitted by IFRS Accounting Standards’. The submission acknowledges the wording in paragraph B134(b) of IFRS 18 as a reason why performance measures that include ‘actual income and expenses... calculated by applying different accounting policies’ are MPMs. We note that paragraph B134(b) of IFRS 18 refers to different accounting policies. Accounting policies include those that relate to recognition as well as the measurement bases applied to amounts recognised.

Conclusion

25. Based on our analysis, we think a performance measure that includes hypothetical income and expenses is a subtotal of income and expenses. Therefore, we disagree with View A (see paragraph 12(a) of this paper).

Faithful representation

26. As paragraph 10 notes, the submitter asks whether a performance measure that includes hypothetical income and expenses needs to faithfully represent ‘an aspect of the financial performance of the entity’. The submission states that some read paragraph BC358(a) of the Basis for Conclusions—reproduced in Appendix B—as implying that an entity is required to assess whether a performance measure faithfully represents an aspect of financial performance of the entity as a whole, independently from management’s view.
27. Paragraphs BC358–BC361 of the Basis for Conclusions—reproduced in Appendix B—discuss the IASB’s considerations on faithful representation in the context of an MPM.
28. Paragraph 2.12 of the *Conceptual Framework* explains the concept of faithful representation. It states: ‘To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent.’
29. Accordingly, the concept of faithful representation applies to financial information, not to the underlying phenomenon. In other words, in assessing faithful representation, an entity considers whether the information disclosed in financial statements faithfully represents what it purports to represent.
30. The objective of the disclosure requirements for MPMs is explained in paragraph 121 of IFRS 18:

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.

31. The objective of the MPM requirements in IFRS 18 is to disclose information about management's view of an aspect of financial performance of the entity as a whole. In other words, it is 'management's view of an aspect of financial performance of the entity as a whole' that is the phenomenon the requirements related to MPMs in IFRS 18 are designed to faithfully represent. The need for a performance measure to provide management's view of an aspect of financial performance of the entity as a whole that is also the basis of the rebuttable presumption in paragraph 119 of IFRS 18. Therefore, in assessing whether a performance measure meets the definition of an MPM, the entity considers whether the information disclosed about the performance measure faithfully represents *management's view* of an aspect of financial performance of the entity as a whole. The entity does not consider whether the performance measure faithfully represents an aspect of financial performance of the entity as a whole, independently of management's view.
32. Paragraph BC360 of the Basis for Conclusions—reproduced in Appendix B—provides further evidence that in assessing faithful representation, an entity is not required to assess whether a measure is a good or bad representation of that aspect of performance.
33. As a result of our analysis in paragraphs 26–32, we think that as used in the requirement in paragraph 117(b) of IFRS 18, the phrase 'management's view of an aspect of the financial performance of the entity as a whole' should be read as one

requirement. In other words, the information that is disclosed needs to faithfully represent management’s view of an aspect of financial performance of the entity as a whole.

34. Based on our analysis, Views B and C (see paragraphs 12(b)–12(c) of this paper) are not reasonable readings of the requirements in paragraph 117(b) of IFRS 18. This is because View B and View C treat the phrase ‘an aspect of the financial performance of the entity’ out of its intended context of ‘management’s view’, as explained in paragraph 33 of this paper.

Conclusion

35. Based on our analysis, a performance measure that includes hypothetical income and expenses can meet the definition of an MPM if it faithfully represents what it purports to represent—that is, ‘management’s view of an aspect of the financial performance of the entity as a whole’.

Conclusion on the application of the requirements

36. For the reasons outlined in paragraphs 19–35, in our view performance measures that include hypothetical income and expenses, as described in the submission, can meet the definition of an MPM because they are a subtotal of income and expenses and can faithfully represent what they purport to represent—that is, management’s view of an aspect of financial performance of the entity as a whole. Assuming the measure meets all the relevant criteria in IFRS 18, an entity would disclose information about that performance measure in its financial statements.

Question 1 for the Committee

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 included in paragraphs 19–36 of this paper?

Is the criterion in paragraph 5.19(b) met?

37. As set out in paragraph 14(b) of this paper, paragraph 5.19(b) of the *Handbook* requires the Committee to assess whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, whether the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.
38. Based on our analysis set out in paragraphs 19–36 of this paper, we think the principles and requirements in IFRS 18 provide an adequate basis to assess whether a performance measure that includes hypothetical income and expenses meets the definition of an MPM.
39. Accordingly, we conclude that the criterion in paragraph 5.19(b) of the *Handbook* is not met. Therefore, in accordance with paragraph 5.22 of the *Handbook*, a standard-setting project is not needed to address the question submitted.

Staff conclusion and recommendation

40. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (summarised in paragraphs 18 and 39) we recommend that the Committee publishes a tentative agenda decision, in accordance with paragraph 8.2 of the *Handbook*, that explains how an entity determines whether a performance measure that includes hypothetical income and expenses meets the definition of an MPM.
41. [Appendix A](#) sets out the suggested wording of the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.¹

¹ Paragraph 8.4 of the *Due Process Handbook* states: ‘Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Accounting Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision.’

Questions for the Committee

Questions 2 and 3 for the Committee

1. Does the Committee agree with our conclusion that the criterion in paragraph 5.19(b) of the *Handbook* is not met and, consequently, there is no need for a standard-setting project?
2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in [Appendix A](#)?

Appendix A—Suggested wording for the tentative agenda decision

Management-defined Performance Measures—Hypothetical Income and Expenses (IFRS 18 *Presentation and Disclosure in Financial Statements*)

Paragraph 117 of IFRS 18 *Presentation and Disclosure in Financial Statements* contains the definition of a management-defined performance measure and states that ‘[a] management-defined performance measure is 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 [a list of subtotals of income and expenses that are not management-defined performance measures], or specifically required to be presented or disclosed by IFRS Accounting Standards.’

The Committee received a request asking whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure in IFRS 18.

Fact pattern

The request describes hypothetical income and expenses as income and expenses that have not been recognised and will never be recognised in the entity’s statement of financial performance applying IFRS Accounting Standards.

The request asks whether, as referred to in paragraph 117 of IFRS 18, a performance measure that includes such hypothetical income and expenses:

- (a) is a subtotal of income and expenses; and
- (b) must faithfully represent an aspect of the financial performance of the entity as a whole.

Applying the requirements in IFRS 18

Subtotal of income and expenses

The definition of a management-defined performance measure in IFRS 18 states that a ‘management-defined performance measure is a subtotal of income and expenses...’. The Committee observed that paragraph 117 of IFRS 18 contains no restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure, including there being no restriction on including income and expenses that are not, and will not, be recognised in the entity’s statement of financial performance applying IFRS Accounting Standards.

Paragraph BC357 of the Basis for Conclusions accompanying IFRS 18 explains the IASB’s rationale for not placing any restrictions on this aspect of the definition of a management-defined performance measure. That paragraph explains that the IASB decided to place no specific restriction on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure because such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.

The Committee therefore concluded that a performance measure that includes hypothetical income and expenses—as described in the request—is a subtotal of income and expenses in accordance with paragraph 117 of IFRS 18.

Faithful representation

In considering faithful representation, an entity assesses whether information disclosed in financial statements would faithfully represent what the information purports to represent.

The objective of disclosures about management-defined performance measures—outlined in paragraph 121 of IFRS 18—is to provide information to help a user of financial statements understand the aspect of financial performance that, in management’s view, is communicated by a management-defined performance measure. Therefore, when considering whether information disclosed about management-defined performance measures faithfully represents what it purports to represent, the Committee observed that

the phrase ‘management’s view of an aspect of the financial performance of the entity as a whole’ in paragraph 117 of IFRS 18 describes the information a management-defined performance measure purports to represent. In other words, ‘an aspect of the financial performance of the entity as a whole’ should not be read independently of ‘management’s view’.

As explained in paragraph BC360 of the Basis for Conclusions accompanying IFRS 18, in the context of management-defined performance measures, faithful representation does not provide information about whether a measure is ‘good’ or ‘bad’ measure.

Conclusion

The Committee concluded that a performance measure that includes hypothetical income and expenses, as described in the request, is a subtotal of income and expenses and can faithfully represent what it purports to represent—that is, management’s view of an aspect of financial performance of the entity as a whole. Assuming such a performance measure meets all the relevant criteria in paragraph 117 of IFRS 18, an entity would disclose information in its financial statements about that management-defined performance measure.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

Appendix B—Excerpts from the Basis for Conclusions on IFRS 18

B1. We have reproduced excerpts from the Basis for Conclusions on IFRS 18.

**Management-defined performance measures
(paragraphs 117–125 and B113–B142)**

...

**Identification of management-defined performance
measures (paragraphs 117–120 and B113–B131)**

...

*Restrictions on calculating management-defined performance
measures*

BC357 The IASB decided it would place no specific restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. The IASB concluded such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.

BC358 However, management-defined performance measures are required to comply with the general requirements for information included in the financial statements. This means:

(a) a management-defined performance measure needs to faithfully represent the aspect of an entity's financial performance it purports to represent;

...

BC359 To achieve a faithful representation for a management-defined performance measure, an entity is required to describe in a clear and understandable manner the aspect of performance it communicates, including the meanings of terms it uses in its descriptions. The entity is then required to apply the terms and the

descriptions to produce a faithful representation—complete, neutral and free from error.

BC360 Faithful representation does not in itself convey other information about the measure. For example, it does not provide information about whether a measure is a ‘good’ or ‘bad’ measure. A management-defined performance measure is only required to faithfully represent the aspect of performance being communicated.

BC361 The requirements for management-defined performance measures are intended to provide transparency about how such measures are calculated, what they communicate, how they relate to the financial statements and how they might have changed. That transparency contributes to meeting the requirement for faithful representation.

Appendix C—Submission

C1. We have reproduced the submission below.

Background

1. IFRS 18 includes requirements to identify and disclose information about management-defined performance measures (MPMs): Paragraph 117 and Appendix A contain the definition of an MPM, and paragraphs 118-120 and B113-B122 contain further requirements when identifying an MPM.
2. Entities disclose many different types of performance measures. This submission focuses on a particular subset of performance measures that include income and expenses that are ‘hypothetical’.
3. These hypothetical performance measures can either consist of (i) a subtotal of **hypothetical income and expenses** (example 1 and 3 in paragraph 7 of this submission), or (ii) have a starting point in the current year statement of financial performance (such as operating profit), but from which the **adjustments** made to that starting point are hypotheticals (example 2 in paragraph 7 of this submission).
4. For the purpose of this submission, hypothetical income and expenses or hypothetical adjustments (‘hypotheticals’) are income and expenses that have not been recognised and will never be recognised in the statement of financial performance. Therefore, ‘hypotheticals’ differ from performance measures that are based on actual income and expenses but are calculated by applying different accounting policies. For clarity, MPM may be calculated using different accounting policies required or permitted by IFRS Accounting Standards (paragraph B134(b)(ii) of IFRS 18). For example, a performance measure that simply applies the LIFO method to the cost of the inventory, does not include ‘hypotheticals’ as defined in the context of this submission.
5. Performance measures with hypotheticals are also not one of the examples in paragraph B116 of IFRS 18, that lists performance measures that are not subtotals of income and expenses.

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6. The submission asks whether performance measures that include ‘hypotheticals’ meet the definition of an MPM.
7. The following are examples of performance measures that include ‘hypotheticals’:
1. Annualised rental income minus non-recoverable property expenses (such as service charges and ground rent). This measure is used in the real estate industry as a numerator (IFRS 18 para B117) to calculate the yield on a property. The annualised rent is calculated by multiplying the rental income for the last month of the reporting date as recognised in accordance with IFRS 16 times twelve months. If the property was owned and leased out during the reporting period, this might be different than the recognised IFRS 16 rental income for the reporting period (for example, due to rent increases agreed during the reporting period). This measure reflects the rental income as if the rent increases existed per the beginning of the reporting period and gives information about the current yield of the property at the reporting date.
 2. Net profit excluding the effects of a major crisis, such as a pandemic or a geopolitical conflict. The entity estimates its income and expenses that it would have generated and incurred if that major crisis had not happened. This may include removing recognised income and expenses (which are not considered ‘hypotheticals’) but also adding estimated income and expenses (which are considered ‘hypotheticals’).
 3. Pro forma gross profit as if the business combination happened at the beginning of the reporting period. The pro forma gross profit comprises the revenue and cost of sales recognised and measured in accordance with IFRS Accounting Standards for the combined entity as if the business combination happened at the beginning of the reporting period. This measure is not specifically required by paragraph B64(q)(ii) of IFRS 3 (IFRS 18 para 117(c)) and because it includes gross profit before the acquisition date, this is not a subtotal as described in paragraph 118(a) of IFRS 18. For this example, assume the depreciation and amortisation of the fair value adjustments recognised in the purchase price allocation do not affect the gross profit.

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8. For this submission, assume that the other requirements in paragraph 117 of IFRS 18 are met for the three examples in paragraph 7 above;
- a. the entity uses the performance measure in its public communication outside the financial statements,
 - b. the performance measure relates to the entity as a whole and the measure is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.
 - c. Moreover, the entity does not rebut the presumption mentioned in paragraph 119 and 120 of IFRS 18 after considering the requirements in paragraph B124 of IFRS 18. Notably, for the three examples in paragraph 7 above, the entity communicates the performance measures with prominence, and the subtotals are used internally to assess or monitor the entity's financial performance.
9. Also assume that the disclosures that an entity would provide if they were MPMs, meet the requirements of IFRS 18. This includes labelling and describing an MPM in a clear and understandable manner (IFRS 18 para 123), and in a way that faithfully represents its characteristics (IFRS 18 para B135).
10. When assessing whether measures with 'hypotheticals' meet the definition of an MPM, the following guidance in IFRS 18 may result in different interpretations on how to apply IFRS 18:
- a. As described in paragraph BC357 of the Basis for Conclusions on IFRS 18, the IASB decided it would place no specific restrictions on how an entity calculates a subtotal of income and expenses that is an MPM. This raises the question whether a measure, even if it does include 'hypotheticals', meets the definition of an MPM if the other requirements are met.
 - b. Paragraph 117 of IFRS 18 states that a measure must be a subtotal of 'income and expenses' to qualify as an MPM. This raises the question whether 'hypotheticals' are a subtotal of 'income and expenses' - this is because they have never and will never occur. They might also not meet the definition of 'income' and 'expenses' in the Conceptual Framework paragraphs 4.68 and 4.69.

c. The IASB described in paragraph BC358(a) of IFRS 18 that an MPM should comply with general requirements for information included in the financial statements. For example, an MPM needs to faithfully represent the aspect of an entity's financial performance it purports to represent (IFRS 18 para BC358(a)). This raises the question whether a measure including 'hypotheticals' can ever faithfully represent an aspect of financial performance, since this reflects events that did not or will never happen.

d. When applying the requirements of paragraph 117 of IFRS 18 for identifying MPMs, paragraph 119 of IFRS 18 includes a presumption that a subtotal of income and expenses that is being used in public communications outside the financial statements communicates management's view of an aspect of financial performance. This raises the question whether a measure always meets the definition of an MPM if management communicates a measure in its public communications and the other requirements are met. This would then also be true even if the measure includes 'hypotheticals'.

Question

Does a performance measure meet the definition of an MPM if it has income and expenses that are 'hypothetical'?

Reasons for the Interpretations Committee to address the matter

11. Even though IFRS 18 is not yet effective, we ask the IFRS Interpretations Committee (IFRS IC) to consider this application question based on paragraph 5.16 of the IASB's Due Process Handbook due to the following:

a. Performance measures are widely used by entities in jurisdictions around the world and therefore many IFRS preparers are expected to disclose MPMs in their financial statements once IFRS 18 becomes effective. Given the importance of performance measures for users of the financial statements, information about MPMs is often deemed to be material.

b. IFRS 18 does not include guidance on the nature of income and expenses or adjustments and how to assess whether the performance measure results in (i) being a

subtotal of ‘income and expenses’ and (ii) communicating ‘an aspect of financial performance’. This lack of clarity may lead to inconsistent application and possibly (i) reduced disclosures for users if entities conclude that a performance measure is not an MPM, affecting transparency, comparability and relevancy of disclosures about MPMs or (ii) inappropriate disclosures if an entity includes performance measures with adjustments inconsistent with the IFRS 18 definition of an MPM.

c. We believe that this issue can be addressed within the scope of IFRS 18, particularly paragraph 117 and related application guidance, which provides a principle for identifying MPMs. Therefore, a narrow clarification could be sufficient without requiring further amendments to the standard.

d. The issue is narrowly defined but has significant implications on the disclosures entities provide on MPMs in their financial statements.

12. In the absence of a Transition Resource Group for IFRS 18, we request the IFRS IC to address this issue.

Views

View A – Performance measures that include ‘hypotheticals’ result in the measure not meeting the definition of an MPM because these are not subtotals of ‘income and expenses’

13. This view focuses on the requirement in paragraph 117 that a management-defined performance measure must be a subtotal of ‘income and expenses’.
14. Income and expenses or adjustments that are ‘hypothetical’ are not recognised as income or expenses in the current period statement of financial performance and will never be recognised income or expenses in the future. They do not and never will meet the definition of ‘income’ or ‘expenses’ in the Conceptual Framework paragraphs 4.68 and 4.69. They are also not based on recognised items of income and expenses calculated by applying different accounting policies (IFRS 18 para B134(b)(ii)). Measures containing ‘hypotheticals’ will therefore not result in a measure that is a subtotal of ‘income and expenses’ (IFRS 18 para 117) as required by the definition of an MPM.

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15. Applying this view, all examples in paragraph 7 of this submission would not meet the definition of an MPM.

View B – Performance measures that include ‘hypotheticals’ are subtotals of income and expenses but result in the measure not meeting the definition of an MPM because these cannot faithfully represent ‘an aspect of financial performance’

16. Contrary to View A, performance measures that include ‘hypotheticals’ are still subtotals of ‘income and expenses’. ‘Hypotheticals’ are income and expenses that are not recognised in the statement of profit or loss, but IFRS 18 does not specifically require this. If they did occur, then they would meet the definition of ‘income’ and ‘expenses’ in the Conceptual Framework. However, performance measures including ‘hypotheticals’ do not meet the definition of an MPM for the reason in the following paragraphs.
17. This view focuses on the requirement in paragraph 117(b) on whether the measure reflects ‘an aspect of the financial performance’ of the entity. Even though paragraph 119 of IFRS 18 includes a presumption about communicating management’s view, a measure should still reflect ‘an aspect of financial performance’.
18. In this view, the requirement in paragraph 117(b) of IFRS 18 that an entity communicates **‘management’s view of an aspect of the financial performance of the entity as a whole’**, is analysed in parts, and all parts of the sentence need to be met to qualify as an MPM. Therefore, the measure needs to reflect ‘an aspect of financial performance’, independently from management’s view.
19. Subtotal of income and expenses or adjustments that are ‘hypothetical’ cannot reflect ‘an aspect of financial performance’ because they reflect events or transactions that did not or will not happen and therefore cannot faithfully represent (Conceptual Framework paragraph 2.12-2.19 and IFRS 18 para BC359-361) management’s stewardship of the entity’s economic resources (Conceptual Framework paragraph 1.13-1.21), being its financial performance. This will therefore result in a measure not faithfully representing an ‘aspect of financial performance’ (IFRS 18 para 117(b)) which is part of the definition of an MPM.

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20. In this view, the fact that the measure has to faithfully represent (as described in IFRS 18 para BC358(a)) the aspect of an entity's financial performance it purports to represent, is applied to the nature of the measure and not only to the disclosures in IFRS 18 para 123 and B134-135. The disclosure might be sufficiently clear on how the measure has been calculated, but because the performance measure does not faithfully reflect an aspect of the entity's performance, this performance measure fails the MPM definition.
21. Applying this view, all examples in paragraph 7 of this submission would not meet the definition of an MPM.

View C – Performance measures that include ‘hypotheticals’ are subtotals of income and expenses and these might result in the measure meeting the definition of an MPM because these might faithfully represent ‘an aspect of financial performance’

22. This view focuses on the requirement in paragraph 117(b) on whether the measure reflects of an aspect of the financial performance of the entity.
23. Similar to View B:
- a. Performance measures that include ‘hypotheticals’ are still subtotals of ‘income and expenses’.
 - b. The fact that the measure has to faithfully represent (as described in IFRS 18 para BC358(a)) the aspect of an entity's financial performance it purports to represent, is applied to the nature of the measure (whether the measure faithfully represents an aspect of financial performance), and not only to the disclosures in IFRS 18 para 123 and B134-135.
 - c. Even though paragraph 119 of IFRS 18 includes a presumption, the measure still has to reflect ‘an aspect of financial performance’.
 - d. The requirement in paragraph 117(b) of IFRS 18 that an entity communicates ‘**management’s view of an aspect of the financial performance of the entity as a whole**’, is analysed in parts and all parts of the sentence need to be met to qualify as an MPM. The measure needs to reflect ‘an aspect of financial performance’, independently from management's view.

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24. Different to View B, subtotal of income and expenses or adjustments that are ‘hypothetical’ might reflect ‘an aspect of financial performance’. Judgement is required whether the resulting performance measure including ‘hypotheticals’ faithfully represents (Conceptual Framework paragraph 2.12-2.19 and IFRS 18 para BC359-361) management’s stewardship of the entity’s economic resources (Conceptual Framework paragraph 1.13-1.21), being its financial performance.
 25. Under this view, even though a performance measure includes ‘hypotheticals’, it could still faithfully represent an aspect of financial performance. However, there might also be certain ‘hypotheticals’ that might make the measure not faithfully reflecting an aspect of financial performance anymore (for example, if it is misleading).
 26. Based on paragraph 8 of this submission, the measure meets all other requirements to qualify as an MPM, and an entity should focus its judgement on whether the measure faithfully represents an aspect of financial performance.
 27. Applying this view and the judgement described in the previous paragraph, examples 1 and 3 in paragraph 7 of this submission would meet the definition of an MPM. Example 2 would not meet the definition of an MPM. That example is disregarding the occurrence of an actual event, resulting in a measure that contains multiple adjustments with a high level of subjectivity, significant levels of assumptions and without a clear boundary. The entity cannot reliably determine the universe of adjustments that are a direct result of the major crisis or whether additional adjustments are required. It cannot faithfully represent management’s stewardship of the entity’s economic resources and therefore an aspect of financial performance of the entity.

View D – Performance measures that include ‘hypotheticals’ do meet the definition of an MPM

28. Similar to View C, performance measures that include ‘hypotheticals’ are still subtotals of ‘income and expenses’.

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29. Different to View B and C, the requirement in paragraph 117(b) of IFRS 18 that an entity communicates **‘management’s view of an aspect of the financial performance of the entity as a whole’**, is not analysed by ‘an aspect of the financial performance of the entity’ in isolation, but is assessed together as ‘management’s view of an aspect of financial performance’.
 30. Different to View C, the fact that the measure has to faithfully represent (as described in IFRS 18 para BC358(a)) an aspect of an entity’s financial performance it purports to represent, is applied to the disclosures in IFRS 18 para 123 and B134-135 and not to the nature of the measure (i.e. to the adjustment).
 31. An entity therefore does not have to assess whether a measure faithfully represents an aspect of financial performance. It is presumed that if management communicates this measure in its public communication and uses it internally, then the performance measure does faithfully represent an aspect of financial performance.
 32. Under that view, the focus is on providing appropriate disclosures that faithfully represents the characteristics of the measure and the adjustments.
 33. In addition, paragraph 117(b) of IFRS 18 states that the MPM should reflect management’s view of an aspect of financial performance and paragraph 119 of IFRS 18 includes a presumption that an MPM does communicate management’s view of an aspect of financial performance. A performance measure, even with ‘hypotheticals’, is presumed to reflect financial performance because management would only communicate this measure to financial statement users if they believed it faithfully reflects an aspect of the entity’s financial performance. The rebuttal in paragraph 120 is for scenarios where a measure is communicated but it is not management’s view of an aspect of financial performance of the entity as a whole and therefore this is not applicable in this scenario (see paragraph 8 of this submission).
 34. Applying this view, all examples in paragraph 7 of this submission would meet the definition of an MPM.