
IFRS® Interpretations Committee meeting

Date	June 2026
Project	Labels of subtotals and matters relating to the presentation of expenses (IFRS 18)
Topic	Cover paper
Contacts	Jenifer Minke-Girard (jminke-girard@ifrs.org)

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). This paper does not represent the views of the International Accounting Standards Board (IASB), the Committee or any individual member of the IASB or the Committee. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® Update. The Committee's technical decisions are made in public and are reported in IFRIC® *Update*.

Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the application of IFRS 18 *Presentation and Disclosure in Financial Statements* that includes questions about:
 - (a) Question 1—the labelling of an additional subtotal in an entity's statement of profit or loss that is also a management-defined performance measure (MPM);
 - (b) Question 2—using a 'mixed presentation'¹ to present operating expenses based on their nature or function; and

¹ The submission refers to both 'mixed presentation' and 'mixed approach'. In this paper we use 'mixed presentation' for internal consistency and to align with wording in the Basis for Conclusions on IFRS 18. As paragraph BC250 of the Basis for Conclusions on IFRS 18 states: '...If an entity classifies and presents some operating expenses based on their nature and others based on their function, the result is a 'mixed presentation'. ...'

-
- (c) Question 3—whether an entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items.²
2. We have organised the papers related to this submission as follows:
- (a) this paper summarises the submission. It also presents our analysis of whether the matters included in the submission have ‘widespread effect’ as set out in paragraph 5.19(a) of the IFRS Foundation’s *Due Process Handbook* (*Handbook*). This paper includes no questions.
 - (b) Agenda Paper 7A presents our research and analysis on Question 1 (paragraph 1(a) of this paper).
 - (c) Agenda Paper 7B presents our research and analysis on Questions 2 and 3 (paragraphs 1(b) and 1(c) of this paper).
3. Agenda Papers 7A and 7B present our analysis of whether it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting (paragraph 5.19(b) of the *Handbook*). Those papers also ask whether the Committee agrees with our conclusion that a standard-setting project is not needed to address the questions and our recommendation to publish two tentative agenda decisions. Each paper includes a draft tentative agenda decision.

Structure

4. This paper includes:
- (a) [summary of the submission](#) (paragraphs 6–9); and
 - (b) [staff analysis](#) (paragraphs 10–14).

² The submission refers to this matter as ‘different presentation of two expenses of the same nature’.

5. The [Appendix](#) to this paper reproduces the submission.

Summary of the submission

Question 1—Labels of subtotals

6. The submission asks about the labelling of an additional subtotal in an entity's statement of profit or loss that is also an MPM. In particular, it asks whether the label is required to explicitly list all the elements that are excluded from (or, alternatively, included in) the measure. The views in the submission (summarised in Agenda Paper 7A) also consider whether IFRS 18 prohibits an entity from using a subtotal label such as 'recurring operating profit'.

Questions 2 and 3—Presentation of operating expenses

7. The submission asks about two related matters:
- (a) when an entity is required to use a mixed presentation to classify and present operating expenses in the statement of profit or loss (Question 2); and
 - (b) whether an entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items (Question 3).

Using a mixed presentation (Question 2)

8. The submitter identifies two views:
- (a) View 1—A mixed presentation for presenting operating expenses should only be used 'as a last resort' or only in 'very rare circumstances' and the criteria for using a mixed presentation are very restrictive.

- (b) View 2—There are no restrictions on the use of a mixed presentation, provided the use of a mixed presentation complies with other applicable requirements.

Presenting some amounts of an operating expense in a function line item
(Question 3)

9. The submitter identifies two views:
- (a) View 1—An entity that includes some amounts of an operating expense in a function line item must present the entire amount of that operating expense in function line items.
- (b) View 2—An entity that includes some amounts of an operating expense in a function line item is not required to present the entire amount of that operating expense in function line items. An expense of a single nature may—with appropriate labelling—be disaggregated and included within both a function line item and a nature line item.

Staff analysis

10. Paragraph 5.19 of the *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 existing IFRS Accounting Standards and the *Conceptual Framework for Financial Reporting*; 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)

11. The purpose of any information requests we send to stakeholders is to understand whether a submission meets the criteria 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.
12. 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 there are differing views in at least one jurisdiction on the application of the applicable requirements.
 - (c) the submission is not confined to a specific fact pattern. The matters in the submission could be relevant to any entity intending to present MPMs as additional subtotals in the statement of profit or loss or to present operating expenses by both nature and function.
 - (d) we have had informal conversations with some stakeholders (including, for example, preparers and securities regulators) that have confirmed the points in paragraph (b) and (c). 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.
13. In our view, the evidence gathered indicates the matters could have widespread effect because:
- (a) many entities applying IFRS 18 will be required to make judgements about the labelling of subtotals and the presentation of operating expenses.
 - (b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective. Such diversity could undermine the usefulness of MPMs.
14. In our view, the criterion set out in paragraph 5.19(a) of the *Handbook* is met for the matters in the submission. Therefore, we have proceeded to analyse the questions submitted (see Agenda Papers 7A and 7B for this meeting).

The Appendix—Submission

A1. We have reproduced the submission below.

[...]

We would like to bring to the attention of the IFRS Interpretations Committee a request for clarification or confirmation of understanding of a number of issues relating to the implementation of IFRS 18. These issues are subjects of disagreement and much discussion, and consequently hinder the preparation of the implementation of IFRS 18. We therefore respectfully request the IFRS Interpretations Committee to examine these matters and to provide clarification or confirmation as early as possible in order to facilitate the implementation process in our jurisdiction.

The issues at stake.

It seemed to us that the standard's objective, beyond seeking comparability, was to better connect financial communication elements with the financial statements. However, it appears that this vision is not widely shared, at least in our jurisdiction, and numerous objections and arguments are presented to issuers to restrict them from presenting external communication elements within the statement of profit or loss itself.

Without being exhaustive, we are often confronted with:

- A very restrictive view of the labels that can be used to designate additional subtotals (as permitted by IFRS 18.24), within the statement of profit or loss, with only descriptions that very explicitly describe the exclusions appearing to be accepted... to the detriment of a more concise description that could also be used in financial communications outside the financial statements.
- A very restrictive view of the possibilities of presenting operating expenses using both the nature of expenses and the function of expenses (“mixed approach”, as permitted by IFRS 18.78)

- A very restrictive view of how expenses should be allocated to functions and the impossibility of having, for the same type of expenses, a presentation by function for part of it and by nature for the rest.

We believe that there is diversity in interpretation of the objectives and roles of the Standard itself and of certain specific provisions, and we are therefore requesting clarifications from the Interpretations Committee in this regard.

[...]

1. Label and content of Subtotals in the Income Statement (Management Performance Measures - MpMs)

Please note that in the following discussion reference to the labelling of MPMs relates solely to their presentation on the face of the Primary Income Statement.

As mentioned in paragraph 24, “*an entity shall present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary*”.

In practice, when an entity presents such additional subtotals in the income statement, it is not uncommon for these subtotals to be MPMs, as they form an integral part of management's communication on its performance. Such presentation of MPMs in the in the statement(s) of financial performance was considered by the Board, which decided not to prohibit it, as explained in § BC 374 [*Prohibiting an entity from presenting management-defined performance measures in the statement(s) of financial performance could prevent it from complying with this requirement. Therefore, the IASB decided not to prohibit an entity from presenting management-defined performance measures in the statement(s) of financial performance*].

Furthermore, as mentioned in BC357, the IASB did not wish to place any restrictions on the definition of MPMs. MPMs, when they are presented on the face of the primary financial statements, should provide a faithful representation of an aspect of the entity's financial performance. However, this requirement does not imply any basis for judging the appropriateness of the measure used [BC 360 *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].

Considering that it is possible to present a MPM in the Income Statement in the form of an additional subtotal, the question then arises as to how it should be labelled. The standard provides the following features:

- § 43 states that *“An entity shall label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows”.*
- § 123 states that *“An entity shall label and describe each management-defined performance measure in a clear and understandable manner that does not mislead users”.*
- § B134 a) states that *“an entity shall label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135);”.*
- B135 a) states that *“an entity shall label the measure in a way that represents the characteristics of the subtotal (for example, using the label ‘operating profit before nonrecurring expenses’ only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and characteristics in accordance with paragraph 43 of financial statements.*
- B135 b) states that an entity *“explains the meaning of terms it uses in its descriptions that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines ‘non-recurring expenses’.*

However, despite these provisions, there is currently much controversy surrounding the terminology that a company is allowed to use to designate an operational management performance measure.

View 1: Proponents of view 1 consider that in order to fulfil the characteristic of “faithful representation,” the label of an MPM must explicitly name all the elements that are excluded from it (or alternatively the elements that are included in it).

This view seems to be based on § 43, which states that an entity “*shall label and describe items presented in the primary financial statements (that is, totals, subtotals and line items) or items disclosed in the notes in a way that faithfully represents the characteristics of the item (see paragraphs B24–B26). To faithfully represent an item, an entity shall provide all descriptions and explanations necessary for a user of financial statements to understand the item. In some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows*”.

This view considers “label and describe” as a single requirement (i.e., label to describe) rather than two separate requirements (i.e., label on the one hand—in the primary financial statements—and describe on the other—for example, in the notes).

Proponents of View 1 also consider that the use of short labelling would fail to comply with paragraph B135(a) that requires an entity to label the measure in a way that represents the characteristics of the subtotal. A short label might be sufficient to represent one characteristic of the subtotal but is unlikely, in their view, to faithfully represent all of its characteristics.

Furthermore, some consider that the term “recurring operating income” should never be used.

View 2: Proponents of view 2 understand from paragraph 123 (and § 43) should not be read as a single requirement. They consider that the second part of this paragraph (i.e. *descriptions and explanations the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows*”) is relevant for the explanatory notes, not the label itself.

Furthermore, since § 123 and § 43 are similar, they see no reason to have to adopt a stricter approach to the labelling of MPMs when they are presented in financial statements.

Notwithstanding the above-mentioned paragraph, it seems to proponents of view 2 that there are no other indications in the standard about what label an entity can choose to designate its MPM. In particular, there are no requirements that would constrain the entity to use a label such as “Operating profit or loss before... (or including)” followed by a list of all excluded (or included) elements.

They think that the use of a sub-total that will be deemed to be an MPM is essentially the consequence of its being used in financial communications, and that such a label will generally be more useful if it is short and concise. They believe that one of the major advances of IFRS 18 is that it considers financial statements to be the anchor point for all financial communication. The presentation of MPMs within the financial statements themselves ensures consistency and should therefore be preferred (provided that it is possible to include these MPMs in the required structures) and should not be discouraged solely on the basis of restrictions on labelling.

Moreover, listing all the items excluded from an additional subtotal presented on the face of the income statement does not appear to comply with the provisions of IFRS 18 (i.e. “useful structured summary”), given that the list of items to be excluded is relatively long. Furthermore, the additional subtotal presented on the face of the income statement is generally followed by line items that explicitly present the items excluded from the additional subtotal. Additional information is also provided in the notes to the financial statements.

They would have the same concern if the label of the additional subtotal was required to list all items it includes (all the more so if these items are directly presented on separate line items above the subtotal).

Proponents of view 2 seek confirmation that their interpretation of IFRS 18 on the following topics is correct:

- The Standard does not impose the use of a long label listing all the items that are excluded from or included in a given additional subtotal.

- The Standard does not forbid the use of a label such as “recurring operating profit”, “Core operating result” or other short and concise label as long as they clearly described and explained. The fair representation of the characteristics of the item or subtotal required by paragraph 43 (and 123) is obtained through the combination of the labelling and the description in the notes, and not necessarily by the labelling alone.
- Those additional subtotals will generally meet the definition of Management defined Performance Measure (MPM). The same labelling could be used by different entities although the content of the given subtotal (i.e. MPM) may differ from one entity to another. This situation is not problematic; in fact, it is explicitly provided for in §122 of the Standard. The entity is then asked to provide all the information required in §121-125 of IFRS 18 in the notes to the financial statements.

Finally, regarding the use of the notion of recurring in a label, they note that the IASB ultimately decided that it could not standardize the concept of recurring but acknowledged that this concept nevertheless remains useful for users (BC93).

Even though there is no standardized definition of this term, entities can still use it to present a MPM that excludes certain items they consider non-recurring as explicitly permitted by B135(a). Companies are then responsible for explaining their rationale and providing transparency on the items they consider non-recurring.

When it is clear that certain items presented below an aggregate recur annually, then the term “non-recurring” may be questionable, as it often refers in the literature to items that occur only occasionally. In this case, another term may be preferable, but it is not necessary for this term to be an exhaustive list of the excluded or included items.

2. The mixed presentation of operating expenses

Paragraph 78 of IFRS 18 requires operating expenses to be presented in such a way that it provides the user with the most useful structured summary of information, either by nature of expenses, by function of expenses within the entity, or both.

Paragraph 78, reinforced by paragraph 79, introduces the possibility of using a mixed presentation. Paragraph B81 emphasises the requirement to present certain expenses by nature and others by function according to their relevance, thus indicating that in certain circumstances it is a mixed presentation which allows the entity to provide the most useful structured summary of information.

View 1: Proponents of view 1 consider that the “mixed approach” is an “approach of last resort” that should only be used in very rare circumstances and whose criteria for application are very restrictive.

Those who support this view argue that when a company has chosen to present its expenses by function, it must systematically allocate all expenses within these functions whenever feasible. They consider that only an arbitrary allocation would justify a mixed approach and where an entity has the capacity to allocate across functions, the mixed function is prohibited. They consider that the exception indicated in § B81 a), “*except for particular expenses for which the allocation to functions would be arbitrary*”, defines the only allowed conditions for a mixed approach.

View 2: Proponents of view 2 consider that there are no such restrictions on the use of a mixed approach, provided that it complies with the structure of the statement of profit or loss and provides a relevant representation of the company's performance and how it is managed by the management.

As mentioned above, IFRS 18 clearly introduces in its principle (stated in paragraph 78) that an entity should determine which presentation—function, nature, or mixed—provides the most useful presentation.

Paragraph B81 illustrates the usefulness of providing a mixed presentation with the two examples that it includes. However, the relevance of the mixed presentation is not limited to the circumstances of the two examples provided, and this presentation may thus be appropriate for other situations cf § BC 251 a)ii) and BC 252).

Moreover, paragraph 80(b) emphasises that the approach adopted should reflect the way the entity's activities are managed and monitored.

For example, it would probably always be feasible to allocate a termination benefit expense to the various functions on a non-arbitrary basis, based on the individuals concerned by the restructuring and the functions to which they participate. However, would it be appropriate to include in the cost of sales the cost of terminating the contracts of employees who are no longer producing?

Those who consider view 2 to be correct interpret the Standard as follows:

- The mixed presentation approach is not an inferior approach which should be used only in a very limited number of cases.
- The two examples provided in paragraph B81 are only examples. Paragraph B81 is not meant to be exhaustive, and other circumstances can justify a mixed presentation.
- The feasibility of the allocation among functions is not the only criterion and should not take precedence over the relevance and accuracy of management's cost monitoring. The approach to the analysis of the entity's performance by its management is an important element which should be taken into account in the decision about the presentation of the elements of the operating profit.
- When it can be demonstrated that a mixed presentation is that which provides the most useful structured summary of information, then it is that approach which should be used. There is no restriction to the use of a mixed approach.

3. Different presentation of two expenses of the same nature

View 1: Proponents of view 1 consider that an entity using a by-function approach must include the entire amount of a given expense in the function lines. They consider for example, that if some employee benefit costs are included in certain function lines, then all employee costs must be allocated by function. This view appears to be based on the aggregation principles set out in the Standard, which would not allow the disaggregation of expenses of the same nature.

In particular, if employee benefits within the scope of IAS 19 are fully allocated to the functions (say, cost of sales, R&D, Selling and Administrative), any share-based payment expense should also be allocated to the functions on the same basis as the allocation of the employee benefit expense.

View 2: Proponents of view 2 understand from paragraph BC253 that the IASB did not wish to define the different functions that an entity can present. The definitions and components of the functions are left to the discretion of the management.

They also understand from paragraph 79 that it is not possible to combine within a single line in the statement of profit or loss an aggregate of expense by nature and by function, but that it is possible that an expense of a single nature may be disaggregated and presented within a function and in a line by nature provided that the labels given to the lines are explicit about what is included or excluded (paragraph B82).

Proponents of view 2 interpret the Standard as follows:

- An entity which presents expenses by function is not required to present the entirety of its operating expenses exclusively within by function line items, as stated in § B82 “*for example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (for example, ‘employee benefits other than those included in cost of sales’*”
- An entity which presents expenses by function is not required to include all expenses of the same or similar nature within by-function line items but may isolate a component of that nature of expense and present it in a separate line by nature.