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## IFRS® Interpretations Committee meeting

Date	<b>June 2026</b>
Project	<b>Labels of subtotals and matters relating to the presentation of expenses (IFRS 18)</b>
Topic	<b>Initial consideration: Labels of subtotals</b>
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## Introduction

1. As Agenda Paper 7 explains, this paper presents 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 *Due Process Handbook (Handbook)*) in response to the question in the submission (Question 1) about the labelling of an additional subtotal in an entity's statement of profit or loss that is also a management-defined performance measure (MPM).
2. The objective of this paper is:
  - (a) to provide the IFRS Interpretations Committee (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 our recommendation to publish a tentative agenda decision.

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## Structure

3. This paper includes:
  - (a) [background and summary of the matter](#) (paragraphs 5–11);
  - (b) [staff analysis](#) (paragraphs 12–25);
  - (c) [staff recommendation](#) (paragraphs 26–27); and
  - (d) [questions for the Committee](#).
4. There are two appendices to this paper:
  - (a) [Appendix A](#) sets out the suggested wording of the tentative agenda decision; and
  - (b) [Appendix B](#) includes excerpts from IFRS 18.

## Background and summary of the matter

### *The question*

5. The Appendix to Agenda Paper 7 reproduces the submission, which provides further details about the question and the views identified by the submitter. The submission does not include a specific fact pattern.
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 (hereafter referred to as 'the measure'). In particular, the submission asks whether the label is required to explicitly list all the elements that are excluded from (or, alternatively, included in) the measure. The submission assumes the measure complies with the requirements in paragraph 24 of IFRS 18 for subtotals in a primary financial statement and meets the definition of an MPM in paragraph 117 of IFRS 18. Appendix B to this paper reproduces paragraphs 24 and 117 of IFRS 18 for ease of reference.

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7. The submitter identifies two views:
- (a) View 1—the label is required to explicitly list all the elements that are excluded from (or, alternatively, included in) the measure.
  - (b) View 2—the label of an MPM is not required to explicitly list all the elements that are excluded from (or, alternatively, included in) the measure.
8. View 1 and View 2 provide differing observations about whether IFRS 18 prohibits an entity from using a subtotal label such as ‘recurring operating profit’. Proponents of View 1 consider, for example, that the label ‘recurring operating profit’ should never be used, while proponents of View 2 consider that an entity can use the term ‘recurring’ to present an MPM that excludes items they consider to be non-recurring (subject to meeting the other requirements for subtotals and MPMs).

### ***Applicable requirements***

9. Paragraph 43 of IFRS 18 states:
- 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.
10. Paragraph 123 of IFRS 18 states:

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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.

...

11. Paragraphs B134–B135 of IFRS 18 state:

B134 Paragraph 123 requires an entity to label and describe its management-defined performance measures in a clear and understandable manner that does not mislead users of financial statements. To provide such a description, an entity shall disclose information that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal. Therefore, an entity shall:

- (a) label and describe the measure in a way that faithfully represents its characteristics in accordance with paragraph 43 (see paragraph B135); and

...

B135 To label and describe the measure in a way that faithfully represents its characteristics, an entity shall:

- (a) label the measure in a way that represents the characteristics of the subtotal (for example, using the label ‘operating profit before non-recurring expenses’ only for a subtotal that excludes from operating profit all expenses identified by the entity as non-recurring); and
- (b) explain 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’).

## Staff analysis

### *Summary of staff view*

12. Determining the appropriate label for the measure requires judgement and depends on an entity’s specific facts and circumstances. However, the label of a subtotal that is an MPM is not required to explicitly list all the elements that are excluded from (or, alternatively, are included in) the measure, as long as that label complies with the applicable requirements in IFRS 18, including providing all descriptions and explanations necessary for a user of financial statements to understand the subtotal.

### *Applying the applicable requirements*

13. In labelling a subtotal that is also an MPM, an entity is required to apply the requirements applicable to the labelling of subtotals and MPMs. In particular:
- (a) paragraph 43 of IFRS 18 (see paragraph 9 of this paper)—and related application guidance paragraphs—set out requirements for the labelling of subtotals in an entity’s primary financial statements;

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- (b) paragraph 123 (see paragraph 10 of this paper)—and related application guidance paragraphs—set out requirements for the labelling of MPMs; and
  - (c) paragraph B134(a)—which includes application guidance on applying paragraph 123—specifically requires an entity to ‘label and describe [an MPM]...in accordance with paragraph 43 [of IFRS 18]’.
14. Determining the appropriate label for the measure requires judgement and depends on an entity’s specific facts and circumstances.
15. The requirements for labelling of subtotals and MPMs do not require an entity to label the measure in a way that explicitly lists all the elements that are excluded from (or, alternatively, included in) the measure. Instead, those requirements set out principles an entity applies when labelling items, including subtotals and MPMs. For example:
- (a) paragraph 43 of IFRS 18 requires the label for a subtotal to faithfully represent the characteristics of the subtotal and, similarly, paragraph B134 requires the label for an MPM to faithfully represent the characteristics of the MPM; and
  - (b) paragraph 123 requires an entity to label an MPM in a clear and understandable manner that does not mislead users of financial statements.
16. We think it is possible to meet the applicable requirements for labelling without listing in the measure’s label all the elements that are excluded from (or, alternatively, included in) the measure. We note:
- (a) paragraph B26 of IFRS 18—which includes application guidance related to paragraph 43—establishes requirements regarding the use of the term ‘other’ in labels. Paragraph B26(a) states that an entity ‘shall use a label that describes the aggregated item as precisely as possible, for example, ‘other operating expenses’ or ‘other finance expenses’’. This supports the possibility of using labels that do not itemise all components of the amount in the label.

- (b) paragraph B135(a) (see paragraph 11 of this paper) contemplates the use of a label that does not list all the items excluded from (or, alternatively, included in) an MPM—it refers to an MPM that has a label of *operating profit before non-recurring expenses*.
17. Paragraph B135(b) of IFRS 18 requires an entity to ‘explain the meaning of terms it uses in its descriptions...(for example, explaining how the entity defines ‘non-recurring expenses’)’. Similarly, paragraph 43 of IFRS 18 says ‘[i]n some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses...’. Considering the examples included in IFRS 18 (as discussed in paragraph 16 of this paper), we think such descriptions and explanations need not be included in the label itself but could be disclosed in the notes to the financial statements. We also note:
- (a) paragraph B26(b) of IFRS 18 provides an example of when an entity might need to *disclose* further information about the amounts labelled as ‘other’ (for an aggregation comprising only items for which information is not material). This example suggests that the ‘descriptions and explanations necessary’ required by paragraph 43 can be disclosed in the notes to the financial statements.
- (b) the second sentence in paragraph B134 of IFRS 18 states (emphasis added) ‘[t]o provide such a description, an entity shall *disclose information* that enables a user of financial statements to understand the items of income or expense included and excluded from the subtotal’. We think this sentence indicates the possibility of an entity disclosing necessary descriptions and explanations in the notes to the financial statements.
18. Consequently, we think the label of a subtotal that is an MPM is not required to explicitly list all the elements that are excluded from (or, alternatively, are included in) the measure, as long as that label complies with the applicable requirements in IFRS 18, including providing all descriptions and explanations necessary for a user of financial statements to

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understand the subtotal. In complying with the applicable requirements, the label should, for example:

- (a) faithfully represent the characteristics of the measure; and
- (b) be clear and understandable in a manner that does not mislead users of financial statements.

19. Our view is aligned with View 2 in the submission.

*Why we disagree with View 1*

20. Proponents of View 1 say:

- (a) the requirement in paragraph 43 of IFRS 18 to ‘label and describe’ a subtotal is a single requirement. In their view, the label should include all the necessary descriptions IFRS 18 requires an entity to provide regarding a subtotal or an MPM; and
- (b) a label that does not list all the items that are excluded from it (or, alternatively, all the elements that are included in it) is unlikely to include all necessary descriptions and faithfully represent the characteristics of the subtotal and MPM.

21. We disagree. As paragraph 17 of this paper notes, we think an entity need not include in the label of the measure itself all descriptions and explanations required by IFRS 18 in relation to a subtotal that is an MPM—the entity can disclose such descriptions and explanations in the notes to the financial statements. We also think IFRS 18 does not prohibit an entity from using a term like ‘recurring operating profit’ as long as the entity is able to comply with the applicable requirements.

**Staff view**

22. Paragraph 12 of this paper summarises our view.

**Question 1 for the Committee**

Does the Committee agree with our analysis of the application of the requirements in IFRS 18 included in paragraphs 12–22 of this paper?

***Assessment of paragraph 5.19 of the Handbook***

23. Paragraph 5.19 of the *Handbook* sets out the criteria the Committee assesses in determining the need for a standard-setting project to address the questions submitted. Agenda Paper 7 for this meeting reproduces paragraph 5.19 of the *Handbook* and provides our analysis of whether the matters in the submission meet the criteria in paragraph 5.19(a) of the *Handbook*—that is, whether the matters set out in the submission have widespread effect. We conclude in paragraph 14 of Agenda Paper 7 that the criterion set out in paragraph 5.19(a) of the *Handbook* is met for the matters in the submission.
24. 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.
25. Based on our analysis in paragraphs 12–22 of this paper, in our view, the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine the required accounting for the matter in Question 1 in the submission. 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.

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## Staff recommendation

26. Based on our assessment of the criteria in paragraph 5.19 of the *Handbook* (see paragraphs 23–25 of this paper), we recommend that the Committee publishes a tentative agenda decision, in accordance with paragraph 8.2 of the *Handbook*, that explains why a standard-setting project is not needed to address the question submitted.
27. [Appendix A](#) to this paper suggests wording for 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.<sup>1</sup>

## Questions for the Committee

### Questions 2 and 3 for the Committee

2. 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?
3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

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<sup>1</sup> 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.'

## Appendix A—Suggested wording of the tentative agenda decision

### Labels of subtotals (IFRS 18 *Presentation and Disclosure in Financial Statements*)

#### Question

The Committee received a request about the labelling of a subtotal in an entity's statement of profit or loss, when that subtotal is also a management-defined performance measure (referred to as 'the measure'). In particular, the request asked whether the label of the measure is required to explicitly list all the elements that are excluded from (or, alternatively, are included in) the measure.

The measure described in the request:

- (a) complies with the requirements in paragraph 24 of IFRS 18 *Presentation and Disclosure in Financial Statements* for additional subtotals in a primary financial statement; and
- (b) meets the definition of a management-defined performance measure (MPM) in paragraph 117 of IFRS 18.

#### The applicable requirements

Paragraph 43 of IFRS 18—and related application guidance in paragraphs B24–B26—set out requirements for the labelling of subtotals in an entity's primary financial statements.

Paragraph 123 of IFRS 18—and related application guidance in paragraphs B134–B135—set out requirements for the labelling of MPMs. Specifically, paragraph B134(a) of IFRS 18 requires an entity to 'label and describe [an MPM] in a way that faithfully represents its characteristics in accordance with paragraph 43 [of IFRS 18]'.

#### Applying the applicable requirements

The Committee observed that determining the appropriate label for the measure requires judgement and depends on an entity's specific facts and circumstances.

The Committee noted that the requirements for labelling of subtotals and MPMs do not require an entity to label the measure in a way that explicitly lists all the elements that are excluded from (or, alternatively, the elements that are included in) the measure. Instead, those requirements set out principles that an entity applies when labelling items, including subtotals and MPMs. For example:

- (a) paragraph 43 of IFRS 18 requires the label for a subtotal to faithfully represent the characteristics of the subtotal and, similarly, paragraph B134 of IFRS 18 requires the label for an MPM to faithfully represent the characteristics of the MPM; and
- (b) paragraph 123 of IFRS 18 requires an entity to label an MPM in a clear and understandable manner that does not mislead users of financial statements.

The Committee observed that it is possible to meet the applicable requirements for labelling without listing in the measure's label all the elements that are excluded from (or, alternatively, the elements that are included in) the measure. Paragraph B135(b) of IFRS 18 requires an entity to 'explain the meaning of terms it uses in its descriptions...(for example, explaining how the entity defines 'non-recurring expenses')' and paragraph 43 of IFRS 18 says '[i]n some cases, an entity might need to include in the descriptions and explanations the meaning of the terms the entity uses...'. The Committee observed that all descriptions and explanations need not be included in the label itself but could also be disclosed in the notes.

The Committee therefore concluded that the label of a subtotal that is an MPM is not required to explicitly list all the elements that are excluded from (or, alternatively, all the elements that are included in) the measure, as long as that label complies with the applicable requirements in IFRS 18, including providing all descriptions and explanations necessary for a user of financial statements to understand the subtotal.

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**Conclusion**

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity—presenting an MPM as an additional subtotal in the statement of profit or loss—to determine how to label that subtotal and what information to disclose about it in the notes. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

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## Appendix B—Excerpts from IFRS 18

B1. Paragraph 24 of IFRS 18 states:

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. When an entity presents additional line items or subtotals, those line items or subtotals shall (see paragraph B9):

- (a) comprise amounts recognised and measured in accordance with IFRS Accounting Standards;
- (b) be compatible with the statement structure created by the requirements listed in paragraph 22;
- (c) be consistent from period to period, in accordance with paragraph 30; and
- (d) be displayed no more prominently than the totals and subtotals required by IFRS Accounting Standards.

B2. Paragraph 117 of IFRS 18 states:

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.