Staff paper

Agenda reference: 2

IFRS® Interpretations Committee meeting

Date	**November 2026**
Project	**Management-defined Performance Measures—Hypothetical Income and Expenses (IFRS 18)**
Topic	**Summary of comments on tentative agenda decision**
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Introduction

1. At its June 2026 meeting, the IFRS Interpretations Committee (Committee) published a tentative agenda decision about whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure (MPM) in IFRS 18 *Presentation and Disclosure in Financial Statements*.

2. The purpose of this paper is to:

   (a) to summarise comments on the tentative agenda decision; and

   (b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

3. Agenda Paper 2A to this meeting contains our analysis of comments on the tentative agenda decision.

Structure of this paper

4. This paper includes:

   (a) background (paragraphs 5–9);

   (b) summary of the comment letters (paragraphs 10–13);

   (c) summary of the staff analysis in Agenda Paper 2A (paragraphs 14–17);

   (d) staff recommendation and questions for the Committee (paragraphs 18–19); and

   (e) Appendix A—suggested wording of the agenda decision.

Background

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. The submission asked whether a performance measure that includes income and expenses that an entity has not recognised and will never recognise in its statement of financial performance applying IFRS Accounting Standards (hypothetical income and expenses) can meet the definition of an MPM in IFRS 18.

7. Specifically, the submission asked whether, as set out in paragraph 117 of IFRS 18, a performance measure that includes such hypothetical income and expenses:

   (a) can be a subtotal of income and expenses; and

   (b) must faithfully represent an aspect of the financial performance of the entity as a whole.

8. In the tentative agenda decision, the Committee:

   (a) observed that to be considered an MPM, a subtotal of income and expenses must, amongst other things, be used by an entity in public communications outside financial statements.

   (b) concluded that a performance measure that includes hypothetical income and expenses can be 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.

   (c) noted that if the performance measure meets all the relevant criteria in paragraph 117 of IFRS 18, that performance measure is an MPM and the entity using that performance measure is required to apply paragraphs 121–125 of IFRS 18 to disclose information in its financial statements about that MPM.

9. Based on its analysis, the Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for the entity to determine whether a performance measure that includes hypothetical income and expenses can meet the definition of an MPM. Consequently, the Committee decided that a standard-setting project is not needed and it instead published a tentative agenda decision.

Summary of the comment letters

10. The Committee received 30 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our

website.[1] This agenda paper includes analysis of only the comment letters received by the comment letter deadline.

11. Of the 30 respondents:

    (a) fourteen agree—or do not disagree—with the Committee's conclusion and tentative decision that a standard-setting project is not needed for the reasons set out in the tentative agenda decision. Many of these respondents nonetheless raise comments, concerns or suggestions in relation to aspects of the tentative agenda decision.

    (b) six do not explicitly agree or disagree but raise comments, concerns or suggestions in relation to aspects of the tentative agenda decision.

    (c) ten disagree with the Committee's analysis and conclusions. Some of these respondents suggest referring the matter to the International Accounting Standards Board (IASB) for standard-setting.

12. Comments, concerns and suggestions raised by respondents—including those who agree and those who disagree with the Committee's analysis and conclusions—generally relate to:

    (a) consistency with the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). In particular, respondents ask whether:

        (i) hypothetical income and expenses meet the definition of income and expenses;

        (ii) measures that include hypothetical income and expenses can represent financial performance; and

        (iii) measures that include hypothetical income and expenses can faithfully represent what they purport to represent.

[1] At the date of posting this agenda paper, there was one late comment letter.

(b) the example performance measures in the submission. Some respondents ask how the Committee's observations and conclusion in the tentative agenda decision apply to the example performance measures included in the submission (see Appendix B of Agenda Paper 2A to this meeting) and suggest including and explaining that analysis in the agenda decision.

(c) practical difficulties. Many respondents ask, for example, how an entity would disclose the information required by IFRS 18 for MPMs when those MPMs include hypothetical income and expenses, and whether the information disclosed would be verifiable in the context of an audit of an entity's financial statements. Some respondents say the practical challenges highlight why the Committee's analysis and conclusions in the tentative agenda decision are incorrect.

13. Because of their concerns and questions, many respondents suggest either: 1) not finalising the tentative agenda decision and instead referring the matter to the IASB; or 2) finalising an agenda decision in line with paragraph 8.2(a) of the *Due Process Handbook* (*Handbook*) but also reporting their concerns to the IASB for consideration when the IASB—in line with paragraph 8.7 of the *Handbook*—decides whether it objects to the agenda decision.

Summary of the staff analysis in Agenda Paper 2A

14. Before summarising our analysis of the topics raised by respondents, we highlight some aspects of our analysis that are embedded in aspects of our detailed analysis in Agenda Paper 2A:

(a) the tentative agenda decision did not comment on whether a performance measure that includes hypothetical income and expenses always meets—or does not meet—the definition of an MPM in IFRS 18. To be an MPM, a performance measure must meet all the criteria in paragraph 117 of IFRS 18. The Committee's analysis and conclusions considered only the parts of the definition that it was specifically asked about.

(b) IFRS 18 does not require an entity to disclose an MPM—the disclosure of an MPM is made in public communications outside financial statements. IFRS 18 requires an entity to disclose *information about* an MPM only if the entity has communicated that measure publicly.

(c) as explained in paragraph BC326 of the Basis for Conclusions to IFRS 18, the IASB concluded that the requirements to disclose information about MPMs in IFRS 18 will improve the transparency of MPMs. In particular, paragraph 121 of IFRS 18 explains that the objective of the requirements to disclose information about MPMs is for an entity to provide information to help a user of financial statements understand:

(i) the aspect of financial performance that, in management's view, is communicated by the MPM; and

(ii) how the MPM compares with the measures defined by IFRS Accounting Standards.

15. The following table summarises our view on the areas of feedback highlighted in paragraph 12:

Topic	Summary of staff analysis
Consistency with the *Conceptual Framework*	While the *Conceptual Framework* is not a Standard and nothing in the *Conceptual Framework* overrides a Standard or any requirement in a Standard, in our view, respondents have not provided evidence that suggests the applicable requirements in IFRS 18, and the Committee's analysis of those requirements in the context of the submission, is inconsistent with the *Conceptual Framework*.

Topic	Summary of staff analysis
Example performance measures in the submission	The tentative agenda decision does not discuss or conclude on any specific examples. In our view, the Committee should not include the examples in the submission (or other examples) in the agenda decision. However, we recommend adding additional explanation in the agenda decision to highlight the need for an entity to consider other criteria in IFRS 18 when assessing whether a performance measure with hypothetical income and expenses is an MPM.
Practical difficulties	The practical difficulties identified do not, to us, indicate the Committee's analysis of the requirements in IFRS 18 is incorrect.
Need for standard-setting	We continue to think that the principles and requirements in IFRS 18 provide an adequate basis for an entity to answer the question in the submission (and therefore, that the criterion in paragraph 5.19(b) of the *Handbook* is not met). Consequently, a standard-setting project is not needed.

16. Based on our analysis, we continue to agree with the Committee's analysis in the tentative agenda decision. However, considering comments from respondents, we think there are improvements that can be made to the tentative agenda decision. In particular, we think the Committee should:

(a) make clear that a performance measure is an MPM only if it meets all the criteria in paragraph 117 of IFRS 18; and

(b) acknowledge that laws or regulations might restrict the use of some performance measures that include hypothetical income and expenses in public communications outside financial statements.

17. To achieve the outcome in paragraph 16, we have proposed expanding paragraph A5 and adding paragraph A13 to the agenda decision, as shown in Appendix A.

Staff recommendation and questions for the Committee

18. Based on our analysis in Agenda Paper 2A, summarised in paragraphs 14–17, we recommend finalising the agenda decision, with changes to the wording of the tentative agenda decision as explained in paragraphs 16–17 and with a few other minor changes—these changes are marked in Appendix A which sets out the suggested wording for the agenda decision.

19. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 18 of this paper?
2. Do Committee members have any comments on the suggested wording of the agenda decision in Appendix A to this paper?
3. Do Committee members have additional observations they would like to report to the IASB regarding this matter?

Appendix A—Suggested wording of the agenda decision

This appendix sets out the suggested wording of the agenda decision. Paragraph numbers are included to facilitate referencing but will be removed when the agenda decision is published in IFRIC *Update*. New text is underlined and deleted text is struck through.

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

A1. Paragraph 117 of IFRS 18 *Presentation and Disclosure in Financial Statements* defines a management-defined performance measure as 'a subtotal of income and expenses that…:

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

(b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and

(c) is not listed in paragraph 118 [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.'

A2. The Committee received a request asking whether a performance measure that includes ~~hypothetical~~ income and expenses that an entity has not recognised, and will never recognise, in its statement of financial performance applying IFRS Accounting Standards (hypothetical income and expenses) can meet the definition of a management-defined performance measure in IFRS 18.

~~Fact pattern~~

A3. ~~The request describes hypothetical income and expenses as income and expenses that an entity has not recognised and will never recognise in its statement of financial performance applying IFRS Accounting Standards.~~

A4. In particular, ~~The~~ the request ~~asks~~ asked whether, as set out in paragraph 117 of IFRS 18, a performance measure that includes ~~such~~ hypothetical income and expenses:

(a) can be 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

A5. ~~The Committee observed that to~~ To be ~~considered~~ a management-defined performance measure, a performance measure is required to meet all the criteria in paragraph 117 of IFRS 18. For example, to be a management-defined performance measure, a subtotal of income and expenses must~~, amongst other things,~~ be used by an entity:

(a) in public communications outside financial statements (paragraph 117(a) of IFRS 18). The Committee observed that laws or regulations might restrict the types of performance measures an entity can use in public communications outside financial statements.

(b) to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole (paragraph 117(b) of IFRS 18). Paragraph 119 of IFRS 18 requires an entity to presume that a subtotal of income and expenses it uses in public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. The Committee observed that an entity might rebut the presumption in paragraph 119 of IFRS 18, subject to the having reasonable and supportable information as described in paragraph 120 of IFRS 18. Reasonable and supportable information could include, for example, use of a measure for the purpose of communicating information other than financial performance

(paragraph B129(d) of IFRS 18)—this measure could include hypothetical income and expenses.

Subtotal of income and expenses

A6. Paragraph 117 of IFRS 18 states that a 'management-defined performance measure is a subtotal of income and expenses…'. The Committee observed that this paragraph contains no restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. ~~Consequently, this paragraph does not restrict an entity from including income and expenses that are not, and will not, be recognised in the entity's statement of financial performance applying IFRS Accounting Standards.~~

A7. Paragraph BC357 of the Basis for Conclusions on ~~accompanying~~ IFRS 18 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.

A8. The Committee therefore concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses in accordance with paragraph 117 of IFRS 18.

Faithful representation

A9. In considering faithful representation, an entity assesses whether information disclosed in financial statements faithfully represents what the information purports to represent.

A10. The objective of disclosures about management-defined performance measures—outlined in paragraph 121 of IFRS 18—includes providing 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’.

A11. As explained in paragraph BC360 of the Basis for Conclusions on ~~accompanying~~ IFRS 18, in the context of management-defined performance measures, faithful representation does not provide information about whether a measure is a ‘good’ or ‘bad’ measure.

Conclusion on applying IFRS 18

A12. The Committee concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses in accordance with paragraph 117 of IFRS 18 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.

A13. A performance measure will be a management-defined performance measure only if it meets all the criteria in paragraph 117 of IFRS 18.

A14. If the performance measure ~~meets all the relevant criteria in paragraph 117 of IFRS 18, that performance measure~~ is a management-defined performance measure ~~and~~ the entity is required to apply paragraphs 121–125 of IFRS 18 to disclose information in its financial statements about that management-defined performance measure. These include requirements to, for example, label and describe a management-defined performance measure ‘in a clear and understandable manner that does not mislead users of financial statements’ (paragraphs 123 of IFRS 18). The objective of the disclosures for information about management-defined performance measures, outlined in paragraph 121 of IFRS 18, 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.

Conclusion

A15. 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.