Staff paper

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

1. As explained in Agenda Paper 2 to this 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 objective of this paper is to analyse comments on the tentative agenda decision.

3. This paper should be read in conjunction with Agenda Paper 2 to this meeting, which includes information on the background; a summary of the comment letters; suggested wording of the agenda decision; and our recommendation and questions for the Committee.

Structure of this paper

4. This paper includes:

   (a) background (paragraphs 5–7);

(b) staff analysis (paragraphs 8–80);

(c) Appendix A—other comments; and

(d) Appendix B—examples in the submission.

Background

5. Paragraph 117 of IFRS 18 contains the definition of an MPM (MPM definition):

> 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. 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*);

(b) the example performance measures in the submission; and

(c) practical difficulties.

Staff analysis

8. In this section we discuss respondents' comments related to:

(a) consistency with the *Conceptual Framework* (paragraphs 11–45);

(b) examples (paragraphs 46–58);

(c) practical challenges (paragraphs 59–69); and

(d) standard-setting and concerns about the outcome (paragraphs 70–80).

9. Appendix A contains our analysis of other comments. We recommend no action in response to those comments.

10. Before getting into a detailed analysis of respondents' feedback, it is worth highlighting that 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 MPM definition 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—that is, whether a performance measure that includes 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.

Consistency with the Conceptual Framework

Feedback

11. Many respondents raise comments or express concerns about how the Committee's analysis, as set out in the tentative agenda decision, aligns with concepts in the *Conceptual Framework*. Some respondents, for example, the European Securities and Markets Authority (ESMA) and the International Organization of Securities Commissions (IOSCO) say paragraph BC358 of the Basis for Conclusions on IFRS 18 (Basis for Conclusions)—which states 'management-defined performance measures are required to comply with the general requirements for information included in the financial statements'—shows why the Committee's analysis should align with the *Conceptual Framework*.

12. Respondents question various aspects of the *Conceptual Framework* in the context of the tentative agenda decision:

    (a) definition of income and expenses (paragraphs 14–19);

    (b) financial performance (paragraphs 20–21);

    (c) faithful representation (paragraphs 22–27); and

    (d) objective of financial statements (paragraphs 28–29).

13. In addition, IOSCO says the International Accounting Standards Board (IASB) is required by paragraph SP1.3 of the *Conceptual Framework* to explain departures from the *Conceptual Framework* in the basis for conclusions accompanying an IFRS Accounting Standard. Consequently, IOSCO says if the Committee concludes there is a departure from, or inconsistency with, the *Conceptual Framework*, the Committee should set out where the IASB explained the departure.

Definition of income and expenses

14. Paragraphs 4.68–4.69 of the *Conceptual Framework state:*

> 4.68 Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
>
> 4.69 Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

15. Some respondents say hypothetical income and expenses do not meet the definition of income and expenses in paragraphs 4.68–4.69 of the *Conceptual Framework.* This is because hypothetical income and expenses do not result from changes in the entity's assets or liabilities and only transactions that actually occurred can affect the entity's assets or liabilities. Consequently, a measure that includes hypothetical incomes and expenses cannot be a subtotal of 'income and expenses' and, therefore, cannot meet the MPM definition.

16. Damon Clark says only income and expenses recognised and measured applying IFRS Accounting Standards can be included in a 'subtotal of income and expenses', as referred to in paragraph 117 of IFRS 18.

17. The Brazilian national standard-setter, Comitê de Pronunciamentos Contábeis (CPC), says there is a distinction between an analysis of transactions that might fail recognition criteria in a standard and of transactions that did not actually occur.

18. A few respondents, for example the Accounting Methodological Centre and the CPC, ask whether the Committee's analysis extends the scope of the MPM disclosure requirements beyond subtotals of income and expenses. They say:

    (a) measures of liquidity or cash flows are excluded from the scope of MPMs by paragraph B116 of IFRS 18. The Accounting Methodological Centre questions how a subtotal of income and expenses measured using an accounting policy

in which income and expenses are recognised on a cash basis differs from those excluded measures of liquidity or cash flows.

(b) paragraphs BC331–BC332 of the Basis for Conclusions explain that the IASB decided not to expand the scope of the MPM requirements beyond subtotals of income and expenses.

19. IOSCO recommends explaining in any final agenda decision why hypothetical income and expenses meet the definition of income and expenses in the *Conceptual Framework*.

Financial performance

20. Some respondents refer to the descriptions of financial performance in the *Conceptual Framework* and ask whether measures that include hypothetical income and expenses can provide information about an entity's financial performance. In particular, those respondents highlight:

(a) paragraph 1.17 of the *Conceptual Framework*, which discusses 'financial performance reflected by accrual accounting' by noting 'accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur.'

(b) paragraph 1.20 of the *Conceptual Framework*, which discuses financial performance reflected by past cash flows by noting 'information about a reporting entity's cash flows during a period also helps users assess…'.

(c) paragraph 4.71 of the *Conceptual Framework*, which states that 'income and expenses are the elements of financial statements that relate to an entity's financial performance'.

(d) paragraph 7.16 of the *Conceptual Framework*, which states that 'understanding an entity's financial performance for the period requires an analysis of all recognised income and expenses—including income and

expenses included in other comprehensive income—as well as an analysis of other information included in the financial statements'.

21. Those respondents say these paragraphs of the *Conceptual Framework* suggest that only actual transactions that occurred in a reporting period can provide information about an entity's financial performance.

Faithful representation

22. Some respondents ask for clarity as to how measures that include hypothetical income and expenses can faithfully represent what they purport to represent.

23. For example, Deloitte highlights paragraph 2.12 of the *Conceptual Framework*, which 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'. Deloitte says it is unclear how an MPM based on a purely hypothetical phenomenon (for example, a measure which excludes the effects of a major crisis which did occur, if considered an MPM) can faithfully represent the substance of the phenomena that an MPM purports to represent.

24. The Brazilian regulator, Comissão de Valores Mobiliários (CVM), says the tentative agenda decision implies that MPMs always faithfully represent economic reality if they reflect management's view.

25. Some members of IOSCO say the Committee should explain how the concept of 'fair presentation' as articulated in paragraph 6A of IAS 8 *Basis of Preparation of Financial Statements* applies to the Committee's analysis. That paragraph states: 'Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the [*Conceptual Framework*].'

26. Paragraph 2.30 of the *Conceptual Framework* says verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.

IOSCO also suggests adding a reference to the *Conceptual Framework*'s enhancing qualitative characteristic of verifiability.

27. Lucilene Pedro explicitly says the Committee has correctly applied the concept of faithful representation in its analysis in the tentative agenda decision.

Objective of financial statements

28. Paragraphs 3.2–3.3 of the *Conceptual Framework* state:

> 3.2 The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources (see paragraph 1.3).
>
> 3.3 That information is provided:
>
> (a) in the statement of financial position, by recognising assets, liabilities and equity;
>
> (b) in the statement(s) of financial performance,9 by recognising income and expenses; and
>
> (c) in other statements and notes, by presenting and disclosing information about:
>
> (i) recognised assets, liabilities, equity, income and expenses (see paragraph 5.1), including information about their nature and about the risks arising from those recognised assets and liabilities;
>
> (ii) assets and liabilities that have not been recognised (see paragraph 5.6), including information about their nature and about the risks arising from them;
>
> (iii) cash flows;

> (iv) contributions from holders of equity claims and distributions to them; and
>
> (v) the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

29. The Brazilian Association of Public Companies (Abrasca) says measures that include hypothetical income and expenses are outside the scope of the financial statements described in paragraphs 3.2–3.3 of the *Conceptual Framework*.

Staff Analysis

30. As paragraph 10 notes, our analysis below is in the context of the parts of the MPM definition that the submitter specifically asked about. Our analysis does not comment on whether performance measures with hypothetical income or expenses are MPMs.

31. In developing its analysis and conclusions as set out in the tentative agenda decision, the Committee considered relevant aspects of the *Conceptual Framework* (for example, the definition of income and expenses and the concept of faithful representation). The Committee did not identify conflicts between the MPM definition in IFRS 18 and the *Conceptual Framework*.

32. We have analysed respondents' comments and concerns below. Based on our analysis, we continue to agree with the Committee's initial assessment and are of the view that the requirements do not conflict with the *Conceptual Framework*.

33. We also note that a purpose of the *Conceptual Framework* is to assist the IASB to develop IFRS Accounting Standards that are based on consistent concepts (paragraph SP1.1(a) of the *Conceptual Framework*). As stated in paragraph SP1.2 of the *Conceptual Framework*, 'the *Conceptual Framework* is not a Standard. Nothing in the *Conceptual Framework* overrides any Standard or any requirement in a Standard.'

34. We have split our analysis into:

(a) the nature of income and expenses and the link to financial performance (paragraphs 35–39);

(b) faithful representation (paragraphs 40–42); and

(c) objective of financial statements (paragraphs 43–44).

Income and expenses and the link to financial performance

35. In our view, the analysis in the tentative agenda decision does not expand the scope of IFRS 18's MPM requirements beyond subtotals of income and expenses. In developing the MPM requirements in IFRS 18, the IASB's intention was not to exclude measures that include hypothetical income and expenses. The IASB also did not consider this to be a departure from the *Conceptual Framework.* In particular:

(a) 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'. Income or expenses not recognised or measured in accordance with IFRS Accounting Standards are captured by the description of hypothetical income and expenses in the submission. This could arise from:

(i) recognition—for example, an entity might, applying IAS 38 *Intangible Assets*, recognise expenditure as part of the cost of an intangible asset. The entity might have a performance measure in which it recognises that same expenditure as an expense in the period in which it incurs the expenditure. The expenditure included in the performance measure—applying recognition criteria that differs from the recognition criteria in IAS 38—has not been recognised, and will never be recognised, in the entity's statement of financial performance applying IFRS Accounting Standards. Instead in this example, what the entity will recognise in its statement of financial performance in relation to the intangible asset is an amortisation (if the intangible asset has a useful life) or impairment expense. Depending on the circumstances, the entity might never

recognise an amount in its statement of financial performance in relation to the intangible asset.

(ii) measurement—for example, an entity might have a performance measure in which it measures cryptocurrencies at fair value through profit or loss. Applying IFRS Accounting Standards, it measures that same cryptocurrency using a different measurement basis. In this situation, the fair value gains or losses included in the performance measure have not been, and will never be, recognised in the entity's statement of financial performance.

(b) at its November 2023 IASB meeting (see Agenda Paper 21B to that meeting), the IASB specifically considered whether, and decided not, to exclude measures that include hypothetical income and expenses from IFRS 18's MPM requirements. During the IASB meeting:

(i) one IASB member said measures that include hypothetical income and expenses should be within the scope of the MPM requirements and provided examples of such measures observed in practice.

(ii) one IASB member said they were comfortable not to include a restriction on such measures because regulatory requirements would not permit some of those measures to be used in public communications.

(c) if the IASB had considered that the requirements depart from the *Conceptual Framework*, it would have highlighted this in the Basis for Conclusions (see paragraph 13).

36. We note 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. The discussion in paragraph 35(a) supports our view. It also explains why income and expenses not recognised or measured in accordance with IFRS

Accounting Standards meet the description of hypothetical income and expenses in the submission.

37. We see no basis in IFRS 18 or the *Conceptual Framework* to differentiate between income and expenses that have not been, and will never be, recognised in the statement of financial performance because of accounting policies that do not exist or because of transactions and events that do not exist. In both cases, an entity is required to consider whether an item is an item of income or expense in the hypothetical scenario being considered.

38. Among other things, an MPM is a subtotal of income and expenses that 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. In other words, an MPM reflects management's view of an aspect of an entity's financial performance and not the entity's financial performance directly.

39. The references to the *Conceptual Framework* summarised in paragraph 20 that respondents note do not, in our view, highlight any conflict between the *Conceptual Framework* and IFRS 18's MPM requirements (as explained in the tentative agenda decision). For example:

    (a) paragraph 1.17 of the *Conceptual Framework* refers to 'the effects of…other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur'. A measure including hypothetical income and expenses could reflect the effects of an event that arose in the reporting period on the entity's financial performance.

    (b) paragraph 7.16 of the *Conceptual Framework* states that understanding an entity's financial performance requires an analysis of all recognised income and expenses (emphasis added) '*as well as* an analysis of other information included in the financial statements'. Information about MPMs is part of the information included in the financial statements.

Faithful representation

40. As explained in Agenda Paper 2 to the June 2026 Committee meeting (June agenda paper), 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. In the June agenda paper, we highlight paragraph 2.12 of the *Conceptual Framework* (see paragraph 23) as the basis for this view.

41. The economic phenomena that information about an MPM purports to represent is management's view of an aspect of the financial performance of the entity as a whole. In other words, to be a faithful representation, the information in financial statements must faithfully represent management's view of an aspect of the entity's financial performance. It is management's view that is the defining characteristic of an MPM. The entity's statement presenting comprehensive income provides a faithful representation of the financial performance of the entity as a whole.

42. The requirement to reconcile an MPM to a directly comparable total or subtotal of recognised income and expenses (see paragraph 123(c) of IFRS 18), in our view, helps achieve a fair presentation as required by paragraph 6A of IAS 8.

Objective of financial statements

43. We think information about measures that include hypothetical income and expenses does not go beyond the scope of the financial statements. IFRS 18 does not require disclosure of an MPM—the disclosure of an MPM is made in public communications outside financial statements. The requirements in IFRS 18 are for *information* about an MPM only if the entity has communicated that measure publicly.

44. In particular, we note the requirement in paragraph 123 of IFRS 18 to disclose a reconciliation between an MPM and the most directly comparable subtotal listed in paragraph 118 or total or subtotal specifically required to be presented or disclosed by

IFRS Accounting Standards. Therefore, information about MPMs provided in the financial statements is in the context of recognised income and expenses.

Staff conclusion

45. 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*. We think no changes are needed to the tentative agenda decision in respect of respondent's comments or concerns in this respect.

Examples

46. The tentative agenda decision included no examples, and the Committee provided no views on specific examples. However, many respondents commented on the examples included the submission. For reference, Appendix B reproduces the examples that were included in the submission.

47. Some respondents say they read the tentative agenda decision as providing a conclusion on whether the examples in the submissions are MPMs. For example, PwC says 'We understand the conclusion of the TAD to be that example 2 [see Appendix B] is an MPM…'.

48. Many ask how to analyse the examples included in the submission, including whether those examples meet the other criteria in IFRS 18 to be considered an MPM. For example, respondents ask:

    (a) whether the performance measures have been used in public communications outside financial statements as required by paragraph 117(a) of IFRS 18. For example, respondents say regulations in many jurisdictions prohibit or

discourage the publication of measures like ‘net profit excluding the effects of a major crisis’.

(b) whether and how an entity should rebut the presumption in paragraph 119 of IFRS 18 that a subtotal of income and expenses used in public communications outside its financial statements communicates management’s view of an aspect of the financial performance of the entity as a whole. For example, some respondents say that some of the examples in the submission might not represent management’s view of an aspect of the entity’s financial performance; and

(c) whether the examples included in the submission relate to the same reporting period as the financial statements (as required by paragraph B120 of IFRS 18).

49. Some respondents suggest including examples, potentially those in the submission, along with the Committee’s conclusions on those examples in any agenda decision. For example:

(a) the Australian Accounting Standards Board (AASB) say ‘examples illustrating the types of hypothetical subtotals considered by the Committee to be MPMs and how those subtotals communicate management’s view of an aspect of the entity’s financial performance as a whole are needed to justify the Committee’s conclusions.’

(b) the CPC and Renata Bandeira, although disagreeing with the Committee’s analysis, say that if the Committee decides to finalise an agenda decision, it should discuss only the examples in the submission rather than the broader question in the submission.

50. Some other respondents, for example PwC, suggest not including an explicit conclusion on the examples in the submission in any agenda decision.

Staff Analysis

51. The tentative agenda decision does not discuss or conclude on the examples that were included in the submission. Instead, the tentative agenda decision discusses the two parts of the MPM definition that the submitter asked about—that is, whether a performance measure that includes 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.

52. The tentative agenda decision includes a conclusion on only those parts of the MPM definition and states (emphasis added) '*If* the performance measure meets all the relevant criteria in paragraph 117 of IFRS 18, that performance measure is a management-defined performance measure…'.

53. In other words, the tentative agenda decision does not assume such performance measures meet other criteria in the MPM definition and, instead, directs a reader to assess those criteria.

54. To include and conclude on the examples in the submission would require the Committee to make assumptions about parts of the MPM definition that the Committee did not consider. The submission says the Committee should assume the other criteria in the MPM definition are met, including that the entity has not rebutted the presumption in paragraph 119 of IFRS 18.

55. However, we think feedback on the tentative agenda decision indicates that assumption might, in some situations, be unrealistic. For example:

    (a) inclusion in public communications—to be an MPM, a performance measure must be used in public communications outside financial statements (paragraph 117(a) of IFRS 18). As noted in paragraph 48, respondents say regulations in many jurisdictions prohibit or discourage the publication of measures like 'net profit excluding the effects of a major crisis'. Renata

Bandeira provides a list of similar measures that have been removed from public communications following regulator requests. We expect entities to follow laws and regulations and therefore expect that entities would not include such measures in their public communications. Any performance measures not used in public communications outside financial statements cannot be an MPM, regardless of whether they meet other parts of the MPM definition.

(b) management's view of an aspect of financial performance—several respondents (for example, AASB, BDO, Deloitte and Forvis Mazars) question whether the examples in the submission can provide management's view of an aspect of the financial performance of the entity as a whole (paragraph 117(b) of IFRS 18). In this respect, an entity would consider whether to rebut the presumption in paragraph 119 of IFRS 18. In particular, in the context of a measure that include hypothetical income and examples, an entity might have reasonable and supportable information to demonstrate that a measure does not communicate management's view of an aspect of the financial performance of the entity as a whole. Paragraphs B124–B131 set out requirements regarding the presumption in paragraph 119 of IFRS 18 and how an entity might rebut it, as permitted by paragraph 120 of IFRS 18.

(c) reporting period—paragraph B120 of IFRS 18 requires MPMs to relate to the same reporting period as the financial statements. A few respondents (for example, IOSCO and the CPC) ask whether the examples included in the submission relate to the same reporting period as the financial statements. Analysis would be required of the particular facts and circumstances to assess whether a performance measure that includes hypothetical income and expenses relates to the same reporting period as the financial statements.

56. The submission provides insufficient information for the Committee to analyse or conclude on the other parts of the MPM definition, nor has the submitter asked about those other parts. As explained in paragraphs 54–55, it would also be inappropriate for the Committee to make assumptions about whether those other criteria are met for the

examples in the submission. Therefore, we think the Committee should not include the examples in the submission (or other examples) in an agenda decision.

57. However, in the light of the feedback discussed in this section, we think it would be helpful to add some additional explanation in the agenda decision. In particular:

(a) highlighting the need to assess other criteria in paragraph 117 of IFRS 18—a few respondents (for example, Grant Thornton) suggest clarifying that an entity must assess whether a performance measure that includes hypothetical income and expenses meets other criteria in paragraph 117 of IFRS 18 to be an MPM. We suggest adding wording to the agenda decision to clarify that:

(i) the Committee has analysed and concluded on only two parts of the MPM definition; and

(ii) an entity is required to assess other criteria in IFRS 18 to determine whether a performance measure is an MPM. See suggestions in paragraphs 16–17 and Appendix A of Agenda Paper 2 to this meeting.

(b) explicit reference to compliance with laws and regulations—a few respondents suggest explicitly acknowledging that laws and regulations in some jurisdictions might restrict the use of some performance measures in public communications. They make this suggestion to reduce the possibility of the agenda decision being read as legitimising measures that regulations discourage. The tentative agenda decision already states ‘The Committee observed that to be considered a management-defined performance measure, a subtotal of income and expenses must, amongst other things, be used by an entity in public communications outside financial statements.’ The IASB and the Committee do not typically include statements in IFRS Accounting Standards or Agenda Decisions to directly acknowledge or require compliance with laws and regulations. Such compliance is assumed. However, we think in this instance the Committee could make an observation in the agenda decision about legal or regulatory restrictions on the use of performance measures in public communications outside financial statements (see paragraphs 48(a) and

55(a)). In paragraph BC335 of the Basis for Conclusions, the IASB noted, in the context of public communications, that 'an entity usually has systems and processes in place to monitor and control its communications to comply with laws and regulations restricting the type and timing of information permitted to be provided to the market…'. See paragraphs 16–17 and Appendix A of Agenda Paper 2 to this meeting for suggestions to incorporate this observation in the agenda decision.

Staff conclusion

58. 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

59. Many respondents highlight practical challenges that could arise if performance measures that include hypothetical income and expenses are MPMs. Respondents typically highlight two areas:

(a) compliance with the requirements to disclose information about MPMs as required by paragraphs 123 and B132–B142 of IFRS 18. Respondents say that in respect of performance measures that include hypothetical income and expenses, it could be challenging to:

(i) label and describe such performance measures in a clear and understandable manner.

(ii) reconcile such performance measures to the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards.

(iii) disclose the income tax effect (determined by applying paragraph B141 of IFRS 18) for each item disclosed in the reconciliation listed in (ii).

(b) the auditability and verifiability of reconciling items that include hypothetical income and expenses.

60. In the light of these challenges, some respondents ask for further analysis of how to apply the requirements. Respondents say performance measures that include hypothetical income and expenses are likely to be more judgemental than other performance measures and are more likely to include significant assumptions, which might affect how an entity labels and describes the performance measure and any reconciling items. Some respondents also question the relevance of information—such as the reconciliations and income tax effect for reconciling items—in relation to performance measures that include hypothetical income and expenses.

61. Some respondents say the practical challenges highlight why the Committee's analysis and conclusions in the tentative agenda decision are incorrect and why, in their view, performance measures that include hypothetical income and expenses should not be MPMs. Patrick Matos says clear labelling and disclosures about MPMs is insufficient for MPMs that he describes as 'misleading'.

Staff Analysis

62. Any performance measures an entity uses in public communications outside financial statements might include income and expenses that require the application of judgement. We accept that performance measures that include hypothetical income and expenses might sometimes involve more judgement than other types of performance measures, but we think all performance measures are likely to involve some element of judgement.

63. Nonetheless, MPMs are management defined. As explained in paragraph BC335 of the Basis for Conclusions, the IASB observed that an entity actively decides how it communicates publicly and the performance measures it includes in those communications. An entity usually has systems and processes in place to monitor and

control its communications. Therefore, we expect management to know and understand the aspect of the entity's financial performance an MPM depicts and how it relates to or reconciles with the entity's financial statements. We expect an entity to be able to develop clear and understandable labels and descriptions of MPMs, and to be able to disclose a reconciliation between the MPM and the most directly comparable total or subtotal, as required by paragraph 123 of IFRS 18.

64. We think it would be inappropriate to comment on exactly how an entity would disclose the required reconciliation. As noted in paragraph BC382 of the Basis for Conclusions, the IASB decided not to specify a format for the reconciliation because the most appropriate format for the reconciliation will depend on the specific MPM.

65. We also understand challenges in calculating the income tax effect of reconciling items for MPMs. The IASB considered challenges and complexity in calculating those tax effects when it developed IFRS 18. For this reason, IFRS 18 specifically allows an entity to use a simplified approach or alternative approaches for calculating the tax effect.

66. We also understand concerns about the auditability and verifiability of performance measures that include hypothetical income and expenses. However, as explained in paragraph BC360 of the Basis for Conclusions, information about an MPM does not provide information about whether a measure is a 'good' or 'bad' measure.

67. We disagree with respondents who say the challenges highlight why the Committee's analysis and conclusions in the tentative agenda decision are incorrect. The IASB considered these challenges in developing the MPM requirements in IFRS 18.

Staff conclusion

68. The practical challenges identified by respondents do not, to us, indicate the Committee's analysis of the requirements in IFRS 18 is incorrect.

69. We think no changes are needed to the tentative agenda decision in response to respondent's comments in this respect.

Standard-setting and concerns about the outcome

70. As explained in paragraph 13 of Agenda Paper 2 to this meeting, some respondents disagree with the Committee's analysis and suggest referring the matter to the IASB for standard-setting. Those respondents suggest amending IFRS 18 to either:

    (a) exclude from the MPM requirements performance measures that include hypothetical income and expenses;

    (b) require MPMs to contain only income and expenses that arise from actual transactions; or

    (c) require MPMs to contain only income and expenses recognised in the entity's statement of financial performance.

71. Paragraph 5.19(b) of the *Handbook* says: 'The Interpretations Committee assesses the need for a standard-setting project based on whether…(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'. The CPC says that the submission having four divergent views is evidence that paragraph 5.19(b) of the *Handbook* is met and why, in its view, the Committee should refer the matter to the IASB for standard-setting.

72. However, Grant Thornton says any attempt to amend IFRS 18 to more narrowly define or restrict the income or expenses an entity is permitted to include within an MPM would lead to greater levels of judgement. Therefore, they say it is more pragmatic to allow hypothetical items to be included, subject to meeting all the criteria in the MPM definition.

73. ESMA and IOSCO say even if the Committee finalises the agenda decision, the Committee should refer the matter to the IASB for standard-setting to either (a) exclude from the MPM requirements performance measures that include hypothetical income and expenses; or (b) add specific disclosure requirements about judgements,

assumptions and sources of estimation uncertainty for MPMs that include hypothetical income and expenses.

74. Respondents also express concerns about the outcome of applying the requirements as explained in the tentative agenda decision. In particular:

(a) many respondents (for example the UK FRC, Deloitte, IOSCO, ESMA, CVM and the CPC) say the conclusion in the tentative agenda decision could encourage entities to include in public communications performance measures they view as 'bad'. Some of these respondents say including such performance measures in financial statements reduces the credibility, comparability and relevance of financial statements prepared using IFRS Accounting Standards.

(b) ACTEO/AFEP/MEDEF and the Accounting Methodological Centre say, as a result of practical challenges that arise in applying the MPM requirements to performance measures that include hypothetical income and expenses, entities are less likely to report these performance measures outside financial statements. In their view, this could reduce the quality of financial information provided to the market.

75. A few respondents ask whether the outcome of the Committee's analysis is in line with the IASB's intention (for example, the South African Institute of Chartered Accountants (SAICA)), or say the Committee's analysis widens the scope of MPMs beyond what the IASB intended (for example, the CPC).

Staff Analysis

76. For reasons discussed in this Agenda Paper, we continue to agree with the Committee's analysis and conclusions as set out in the tentative agenda decision. We continue to agree with the Committee 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. A submission including divergent views is not evidence that the criterion in paragraph 5.19(b) of the

Handbook is met—all questions discussed by the Committee arise because there are divergent views.

77. We understand respondents' concerns about the outcomes, as described in paragraph 74. We think many of those respondents read the tentative agenda decision as implying that the examples in the submission are always MPMs. However, as explained in this paper, the Committee has neither discussed nor concluded on any specific examples, and to be an MPM a performance measure must meet all criteria in the MPM definition.

78. We think the outcome of the Committee's analysis is in line with the IASB's intentions when it developed IFRS 18. As paragraphs 35(b) notes, the IASB intended to capture performance measures with hypothetical income and expenses in the scope of MPMs (assuming they meet the other criteria to be an MPM). The IASB's intent is explained in the section of the Basis for Conclusions titled 'Restrictions on calculating management-defined performance measures'. In particular, paragraph BC357 of the Basis for Conclusions states:

> 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.

79. Notwithstanding our view that standard-setting is not needed, we note that standard-setting to restrict the scope of the MPM requitements would be difficult. This is because all MPMs are in a sense hypothetical (that is, they all depict a measure of performance that differs from the performance reported in the entity's statement presenting comprehensive income). In particular, we think it would be difficult to identify the scope of income and expenses to be included and excluded.

Staff conclusion

80. Based on our analysis in paragraphs 76–78, we continue to agree with the Committee 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. We also recommend no action in respect of other comments about the outcome of applying the requirements, as explained in the tentative agenda decision.

Appendix A—Other comments

A1. The following table analysis other comments raised by respondents:

Respondent concern	Staff analysis and conclusion
Patrick Matos and Telefonica say the lack of restrictions on subtotals of income and expenses in IFRS 18 should not be taken as permission to include any income and expenses in MPMs.	*No change* To be an MPM, a measure must meet all the criteria in paragraph 117 of IFRS 18. Paragraph BC357 explains why IFRS 18 includes no specific restriction on how an entity calculates a subtotal of income and expenses that is an MPM.
Sounder Rajan and CVM say the examples of performance measures in the submission are forward-looking.	*No change* Paragraph B120 of IFRS 18 requires that MPMs relate to the same reporting period as the financial statements.
ESMA, IOSCO and PwC suggest referencing additional disclosure requirements: 1) PwC suggest referring to paragraphs 43 and B134–B135 of IFRS 18. 2) ESMA and IOSCO suggest highlighting the need for disclosures about significant	*No change* The agenda decision already refers to paragraphs 121–125 of IFRS 18, which include cross-references to supporting requirements in paragraphs B132–B140 of IFRS 18. An entity is required to comply with all these requirements to ensure information it discloses about an MPM is useful. We think it is unnecessary to

judgements and sources of estimation uncertainty.	single out specific requirements. Doing so risks entities placing undue weight on those requirements and insufficient weight on other requirements.
ACTEO/AFEP/MEDEF say there are challenges in rebutting the presumption in paragraph 119 of IFRS 18 and suggests illustrating the notion of 'reasonable and supportable information' (paragraph 120 and paragraphs B125–B129), 'so that the possibility to rebut the presumption has real substance in practice'.	*No change* The application of the rebuttable presumption is outside the scope of the question in the submission.

A2. In addition. Appendix B of Agenda Paper 9 for this meeting summarises and analyses comments from CPA Australia that apply to all the tentative agenda decisions on IFRS 18 that the Committee decided to publish at its June 2026 meeting. As stated in that paper, we recommend no further action in response to those comments.

Appendix B—Examples in the submission

B1. As explained in paragraph 46, the tentative agenda decision includes no examples. However, some respondents refer to the examples of measures that include hypothetical income and expenses that were included in the submission.

B2. For ease of reference when reading feedback from respondents we summarise the examples below:

(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.