



# IFRS 18: Presentation and Disclosure in Financial Statements

*New Accounting Standard Summary*

1. General Overview

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2. IFRS 18 Requirements

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3. Why Management Solutions?

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# 1 | General Overview

## Executive Summary

In April 2024, the IASB issued IFRS 18 to enhance transparency in financial statements, specifically aiming to improve the disclosure of financial performance in the profit and loss statement

Context	Objective	Next steps
<ul style="list-style-type: none"> <li>In April 2016, the initial draft was discussed by de Board. In December 2019, International Accounting Standards Board (IASB) published the Exposure Draft (ED) on General Presentation and Disclosures.</li> <li>In April 2024, IASB issued IFRS 18. This new standard completes the IASB project to revise financial statements to improve the <b>usefulness of the information</b> presented and disclosed in financial statements, replacing IAS 1 <i>Presentation of Financial Statements</i>.</li> </ul>	<ul style="list-style-type: none"> <li>To provide investors with more <b>transparent</b> and <b>comparable information</b> on companies' financial performance, which will help to make better investment decisions.</li> <li>IFRS 18 applies to <b>all financial statements</b> prepared and presented in accordance with International Financial Reporting Standards (IFRS).</li> </ul>	<ul style="list-style-type: none"> <li>It will be effective for annual accounting periods beginning on or after <b>1 January 2027</b>, although early adoption is permitted.</li> <li>Implementation of through retroactive application; comparative information in the income statements and applicable notes will need to be restated.</li> </ul>

### New IFRS 18 requirements

#### New categories in the income statement and new subtotals

- Introduction of **three categories of income and expenses** (operating, investing and financing) to improve the structure of the income statement.
- All companies will have to present **two new regulatory defined subtotals**: operating profit and profit before financing and income taxes.

#### Management-defined performance measures (MPMs)

- Companies are required to **disclose explanations of company-specific measures** that are related to the income statement, referred to as MPMs.
- It will **improve the discipline and transparency** of MPMs and make them subject to audit.

#### Requirements for grouping information













- Enhanced guidance on how to **organise information and whether to provide it** in the primary financial statements or in the notes.
- Companies are required to **provide more transparency about operating expenses**, helping investors to find and understand the information they need.



# 2 | IFRS 18 Requirements

## Motivation, target and changes included

IFRS 18 helps companies to improve the way they communicate their financial results to investors in the profit and loss account. IFRS 18 introduces three sets of requirements to achieve these objectives

	New subtotals and new categories in the statement of profit or loss	Management-defined performance measures (MPMs)	Requirements for grouping of information
 <p><b>Motivation</b></p> <p>There is no specific structure for the income statement. The way operating profit is calculated varies from company to company, which reduces comparability.</p>	<p>Insufficient information is provided for investors to understand <b>how these measures are calculated</b> and how they relate to the subtotals in the income statement.</p>	<p>Investors' analysis of company performance is hampered if the information disclosed by companies is <b>too summary or too detailed</b>.</p>	
 <p><b>Target</b></p> <p>Create a <b>consistent structure</b> in the <b>profit and loss account</b> to provide a starting point for investor analysis.</p>	<p>Increasing <b>transparency</b> of <b>performance measures</b> and improving discipline and transparency performance measures and making them subject to audit.</p>	<p>Achieving a <b>more useful grouping of information</b> in the financial statements</p>	
 <p><b>Changes included</b></p> <p><b>Two new subtotals</b> are required to be reported:</p> <ul style="list-style-type: none"> <li>Operating result</li> <li>Profit before financing and taxes</li> </ul> <p>And <b>5 categories</b> are established for <b>classifying income and expenses</b>, introducing 3 new categories</p>	<p>Companies are required to disclose <b>explanations</b> of <b>company-specific measures</b> related to the <b>income statement</b>, called management-defined performance measures.</p>	<p><b>More detailed guidance</b> is set out on how to <b>organise the information</b> and whether it should be provided in the main financial statements or in the notes.</p>	
 <p><b>Affected reports</b></p>	 <p>Income statement</p>	 <p>Memory</p>	      <p>Balance sheet Income statement Cash Flow statement Statement of changes in equity Statement presenting comprehensive income Memory</p>

Changes tiering: ● High ● Medium ● Low









# 2 | IFRS 18 Requirements

## New subtotals and new categories in the income statement






IFRS 18 introduces three defined categories of I&E (operating, investing and financing) to improve the structure of the income statement, and requires to present new defined subtotals (operating profit and profit before financing and income taxes)

### Income and expenses (I&E) regulatory categories

	<b>Operating</b> 	I&E derived from company's operations, regardless of whether they are volatile or unusual in any way, and those not categorised in the other categories.
	<b>Investing</b> 	I&E from assets that generate returns separately from a company's business activities, such as investment property or dividends from shares.
	<b>Financing</b> 	I&E on liabilities such as bank loans and bonds; and interest expenses on any other liability.
	<b>Income Tax</b>	Income tax expense (or tax income) included in the income statement, and any related foreign exchange differences.
	<b>Discontinued Operations</b>	I&E from discontinued operations recognised in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

### Income statement regulatory subtotals

<b>Gross profit</b>
<b>Operating profit</b> 
<b>Profit before financing and income taxes</b> 
<b>Profit before income taxes</b>
<b>Profit from continuing operations</b>
<b>Profit</b>

 Introduced by IFRS 18

## 2 | IFRS 18 Requirements

### Management-defined performance measures



#### IFRS 18 requires companies to disclose explanations of company-specific measures related to the income statement, known as MPMs

##### MPM definition

*A subtotal of income and expenses other than those listed by IFRS 18 or specifically required by other IFRS Accounting Standard...*

*... that the Company uses in **public communications** outside the financial statements....*

*... to **communicate to investors management's view** of an aspect of the financial performance of the enterprise as a whole*

Other IFRS defined measures such as the free cash flow, are not considered MPMs

Public communications include management commentary, press releases and investor presentations. For the purpose of identifying management-defined performance measures, public communications do not include oral communications, written transcripts of oral communications or social media postings.

IFRS 18 presumes that a subtotal of income and expenses used in public communications outside the financial statements represents management's view of financial performance.<sup>1</sup>

#### New Disclosure Requirements in a single note for MPMs

- a **reconciliation** between the measure and the most directly comparable subtotal listed in IFRS 18 or total or subtotal specifically required by IFRS Accounting Standards, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;
- a description of how the measure **communicates** management's view and how the measure is **calculated**;
- an explanation of any **changes** in the company's MPMs or in how it calculates its MPMs; and
- a **statement** that the measure reflects management's view of an aspect of financial performance of the company as a whole and **is not necessarily comparable** to measures sharing similar labels or descriptions provided by other companies.

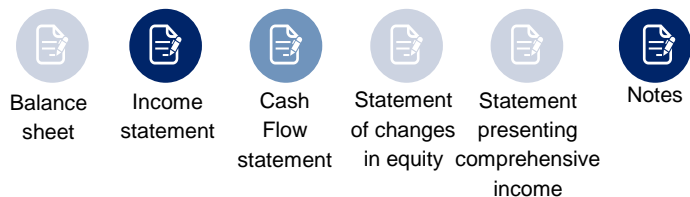
# 2 | IFRS 18 Requirements

## New requirements for grouping information



IFRS 18 sets out more detailed guidance on how the information should be organised and whether it should be provided in the main financial statements or in the notes<sup>1</sup>

### General Principles for grouping of information



### Presentation of expenditure in the operating category



**1** Aggregation of items sharing characteristics and disaggregation of items with different characteristics

**2** Grouping of the elements in a way that **does not obscure material information** or reduce the comprehensibility of the information presented

**3** Placing elements in the main financial statements and in the notes to the financial statements to fulfil their complementary roles

**Presenting operating expenses in a structured way**, considering which items provide the most relevant information on the key components of profitability and how the company is managed internally.

- **By nature:** economic resources consumed to carry out the company's activities, such as raw materials, salaries and advertising costs.
- **By function:** activity to which the resource consumed is linked, such as cost of sales, distribution costs and administrative expenses.

**Details of operating expenses**, such as depreciation, amortisation, employee benefits, impairment losses and inventory write-downs. This helps investors to better forecast future cash flows under different economic conditions.

Changes tiering: ● High ● Medium ● Low

1. The primary financial statements include: i) the statement of financial position (balance sheet); ii) the statement of profit or loss (income statement); iii) the statement presenting comprehensive income; iv) the statement of changes in equity; and v) the statement of cash flows (cash flow statement). The financial statements and the notes have complementary roles.

# 3 | Why Management Solutions?

**Management Solutions has proven experience in the field of regulatory reporting, offering support throughout the entire regulatory reporting cycle**



**Experience in the implementation of IFRS:** large experience in the development, evolution or validation of different accounting standards: IFRS9, IFRS17, IFRS16, IFRS15, etc. among different geographies (>10) and sector (banking, insurance and others)



**Proven methodology:** Management Solutions has supported and is currently working with more than 24 GSIBs and DSIBs internationally in the process of diagnosing and updating accounting circuits to adapt to the new regulation, which allows us to provide lessons learned and identify best practices.



**Experience in regulatory inspections:** support to different institutions in the preparation and support during IFRS9 inspections.



**Holistic view.** MS has experience in the different lines of work affected by accounting standards: definition of criteria, documentation of policies & procedures, definition of accounting schemes, evolution of accounting tools & systems, review of processes, generation of financial statements, definition and implementation of control frameworks.



**Robust relationship model with supervisors and experience in supervisory review processes.** Support supervisors and financial institutions in supervisory review processes (OSIs, IMIs, ...).





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Best practice  
know-how



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Experience



Maximum  
Commitment

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