

Applying IFRS

# A closer look at IFRS 18

Updated April 2026



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## What you need to know

- IFRS 18 replaces IAS 1 and responds to investor demand for better information about an entity's financial performance.
- IFRS 18 sets out general and specific requirements for the presentation of financial statements and for disclosures in the notes.
- The new requirements of the standard include:
  - Required totals, subtotals and new categories for all income and expenses included in the statement of profit or loss
  - Disclosure of management-defined performance measures (MPMs)
  - Enhanced guidance on the grouping (aggregation and disaggregation), description (labelling) and location of information
- Limited, but widely applicable, amendments have been made to other IFRS accounting standards, most notably IAS 7, IAS 33 and IAS 34.
- Some requirements previously included in IAS 1 have been moved to IAS 8, and that standard has been renamed.
- IFRS 18, and the consequential amendments to other standards, are effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted.
- Retrospective application is required in both annual and interim financial statements along with specified reconciliations for certain comparative periods.
- Although the impact of the new requirements may vary between entities, IFRS 18 is expected to impact all entities, across all industries.

## Overview

This publication discusses the new requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*, an IFRS® Accounting Standard, addressing presentation and disclosure in financial statements, applicable for periods beginning on or after 1 January 2027. IFRS 18, once effective, will replace IAS 1 *Presentation of Financial Statements*.

While much of IAS 1 will be carried forward to the new standard with only limited wording changes, IFRS 18 introduces several new requirements that are expected to impact the presentation and disclosure of most, if not all, entities. These new requirements include:

- Requirements to classify all income and expenses included in the statement of profit or loss into one of five categories (three being new) and to present two new mandatory subtotals (see section 3 below).
- Required disclosures about certain non-GAAP measures ('management-defined performance measures' or 'MPMs'), in a single note to the financial statements (see section 4 below)
- Enhanced guidance on the aggregation and disaggregation of information across all the primary financial statements and the notes (see section 2 below).

To implement these requirements, it is expected that entities will need to make changes to their data collection processes, information systems and their financial statement close process. In some cases, the requirements are also expected to trigger revisiting of remuneration policies and debt covenants that are currently linked to IAS 1 profit or loss metrics, which will require negotiations with relevant stakeholders. [IFRS 18.BC415]. It is likely that identifying MPMs, and providing the required disclosure, will necessitate more collaboration between an entity's financial reporting, legal and investor relations teams (among others) than is currently the norm. These measures will now generally be subject to audit and increased regulatory scrutiny.

The focus of this publication is on the new requirements. The requirements carried forward from IAS 1 substantially unchanged will only be addressed if necessary to explain the context of the new requirements.<sup>1</sup>

IFRS 18, once effective, will also make narrow scope, but widely applicable, consequential amendments to other standards including:

- IAS 7 *Statement of Cash Flows* (see section 5.1 below), which will both:
  - Require the use of 'operating profit or loss' as the mandatory starting point for entities using the indirect method
  - Largely remove the current optionality for classifying cash flows from interest and dividends
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*<sup>2</sup> (see section 5.2 below), which will contain some requirements currently included within IAS 1
- IAS 33 *Earnings per Share* (see section 5.3 below), which will:
  - Restrict the types of additional earnings per share measures that entities are permitted to disclose
- IAS 34 *Interim Financial Statements* (see section 5.4 below), which will:
  - Require the same MPM-related disclosures in interim financial statements as required in annual financial statements

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1 For guidance on IAS 1, see International GAAP® 2026, Chapter 3. Available on [ey.com/IFRS](https://ey.com/IFRS).

2 The consequential amendments, once effective, changes the title of IAS 8 to 'Basis of Preparation of Financial Statements' to better reflect the amended content of IAS 8.

IFRS 18 and the consequential amendments to other IFRS accounting standards, which must be adopted at the same time, are effective for periods beginning on or after 1 January 2027 and apply fully retrospectively. The transitional provisions specifically require a reconciliation between the presentation of the statement of profit or loss under IAS 1 and IFRS 18 for certain comparative periods and also set out requirements for the interim financial statements in the first year of adoption. Earlier application is permitted and will need to be disclosed (see section 6 below).



### How we see it

While there might appear to be ample time before the effective date of IFRS 18, entities are strongly encouraged to determine the impact of the new requirements. Management needs to plan ahead as the transition process could require considerable time and involve a combination of resources.

Although the impact of the new requirements might vary between entities, IFRS 18 is expected to impact all entities, across all industries and to affect other areas of the financial statements, not just the statement of profit or loss.

The views expressed in this publication represent EY's perspectives as of April 2026. As the focus of this edition continues to be on the new requirements of IFRS 18, we have added frequently asked questions, covering a range of issues relating to all aspects of those new requirements. Additional issues may be identified as we continue to analyse the application of IFRS 18 and the related consequential amendments to other IFRS accounting standards, and our views may evolve during that process.

# 1 Introduction

In April 2024, the International Accounting Standards Board (the IASB or the Board) published a new IFRS accounting standard on presentation and disclosure in financial statements. IFRS 18 marks the culmination of the IASB's Primary Financial Statements project, running since 2014, whose objective was to improve communication in financial statements.

Once effective, the new standard replaces IAS 1 and some requirements currently included within IAS 1 are moved to IAS 8 (which was also renamed *Basis of Preparation of Financial Statements* - see section 5.2 below) and to a much lesser extent, IFRS 7 *Financial Instruments: Disclosures*. Narrow scope consequential amendments have been made to other IFRS accounting standards including:

- IAS 7 (see section 5.1 below)
- IAS 33 (see section 5.3 below)
- IAS 34 (see section 5.4 below)

IFRS 18 and the consequential amendments to other IFRS accounting standards are effective for periods beginning on or after 1 January 2027; earlier application is permitted and will need to be disclosed (see section 6 below).

While IFRS 18 represents a major overhaul of the requirements relating to the presentation and disclosure of information in financial statements, many of the existing requirements in IAS 1 are carried forward substantially unchanged. This is because the IASB has chosen to focus on targeted improvements designed to address the three key concerns expressed by users of financial statements (hereafter 'users'), being: *[IFRS 18.BC3]*

- 1) Subtotals in the statement of profit or loss are not sufficiently comparable across reporting entities
  - 2) The transparency and understandability of non-GAAP measures needs to be improved
- And
- 3) The aggregation and disaggregation requirements had not been consistently understood or applied, leading to the omission of information that users need and the obscuring of material information

Key new requirements in IFRS 18 intended to address these concerns include:

- Mandatory subtotals and categories of income and expense in the statement of profit or loss, as well as new requirements for the disclosure of operating expenses (see section 3 below)
- Disclosures about management-defined performance measures (or MPMs) in the financial statements (see section 4 below)
- Enhanced requirements for the aggregation, disaggregation and location of information presented in the primary financial statements and disclosed in the notes, as well as guidance on providing informative labels (see section 2 below)

While many of the requirements in IAS 1 are carried over to IFRS 18 substantially unchanged, the language and the format of the standard have been updated. For example, in line with the general structure of more recent IFRS accounting standards, both the definitions and the application guidance have been moved out of the main body of the standard to appendices.

This publication deals with the key new requirements in IFRS 18 and key consequential amendments in other IFRS accounting standards that could impact the financial statements for most reporting entities.



## How we see it

The adoption of the new standard provides an opportunity for entities reporting under IFRS accounting standards to revisit their communication strategy in the financial statements in general and for financial performance in particular. We expect that the new requirements will improve both comparability and transparency of financial statements prepared in accordance with IFRS accounting standards.

To implement IFRS 18, it is likely that entities will need to update their financial statement close process and make changes to their information systems. Management needs to plan ahead as the transition process could require considerable time.

It is likely that identifying management-defined performance measures, and providing the required disclosure, will necessitate significantly more collaboration between the entity's financial reporting, legal and investor relations teams, among others, than is currently the norm in practice.

### 1.1 Objective and scope

The objective of IFRS 18 is the same as for its predecessor: to help ensure that general purpose financial statements (hereafter 'financial statements') provide users with relevant information that faithfully represents the reporting entity's assets, liabilities, equity, income and expenses. The standard must be applied by all entities that prepare financial statements in accordance with IFRS accounting standards. *[IFRS 18.1, IFRS 18.2].*

IFRS 18 sets out general requirements for financial statements and general principles for aggregation and disaggregation (see section 2.2 below). It includes specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity as well as for the disclosure of information in the notes to financial statements (see section 2.1 below).

*[IFRS 18.3].* IFRS 18 also includes requirements for the descriptions (or labels) of line items presented in the financial statements or items disclosed in the notes (see section 2.3 below). Furthermore, IFRS 18 introduces requirements to classify all income and expenses, included in the statement of profit or loss, into categories and to present certain mandatory subtotals (see section 3 below). IFRS 18 also requires disclosures about certain non-GAAP measures ('management-defined performance measures' or 'MPMs') to be included in a single note to the financial statements (see section 4 below).

The standard clarifies that "Other IFRS Accounting Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events". *[IFRS 18.4].*

The presentation and disclosure requirements for information in the statement of cash flows are still contained in IAS 7. However, IFRS 18 is now explicit that the general requirements for financial statements, the principles of aggregation and disaggregation and some requirements relating to disclosures in the notes in IFRS 18 also apply to the statement of cash flows (see section 2 below). *[IFRS 18.3].* Furthermore, as explained in section 5.1 below, some narrow scope amendments have been made to IAS 7.

The requirements in IFRS 18 apply to consolidated and separate financial statements, but they are not generally applicable to the presentation and disclosure of information in condensed interim financial statements prepared in accordance with IAS 34 (discussed in section 5.4 below). However, the principles of aggregation and disaggregation (see section 2.2 below), as well as the requirements relating to MPMs, (see section 4 below) do apply to such interim condensed financial statements. *[IFRS 18.5].* The impact on interim financial reporting during the year of adoption is discussed in section 6.1 below.

## 1.2 New terms, definitions and labels

Some of the terms in IFRS 18 differ from those in IAS 1. For example, IFRS 18 refers to a 'statement of financial performance', whereas IAS 1 refers to a 'statement of profit or loss and other comprehensive income'. [IFRS 18.10(a)]. IFRS 18 requires a statement of financial performance to be presented as either: [IFRS 18.12]

- (a) One single statement of profit or loss and other comprehensive income with the profit and loss section followed immediately by the other comprehensive income section
- Or
- (b) Two separate statements, with the statement of profit or loss presented first and immediately followed by the statement presenting comprehensive income

The standard uses the term 'statement of profit or loss' to refer both to the profit or loss section of a single performance statement and to a separate statement of profit or loss. [IFRS 18.13(a)]. In a similar way, the standard uses the term 'statement presenting comprehensive income' to refer both to the other comprehensive income section in a single performance statement and a separate statement presenting comprehensive income. [IFRS 18.13(b)].

IFRS 18 introduces the concept of 'primary financial statements', encompassing:

- The statement of financial performance
- The statement of financial position  
The statement of changes in equity
- And
- The statement of cash flows

A complete set of financial statements, therefore, comprises the primary financial statements and the notes. [IFRS 18.10, IFRS 18.11].

A key change in the use of language in the standard is reflected in its title, which refers both to 'presentation' and 'disclosure'. The standard now differentiates between 'presentation' and 'disclosure' (see section 2 below) and explains that "an entity presents information in the primary financial statements and discloses information in the notes". This is in contrast to IAS 1, which mostly used the terms interchangeably. [IFRS 18.15].

Following the establishment of the International Sustainability Standards Board (ISSB), the IASB has introduced a new term of reference for the body of standards, to distinguish them from IFRS Sustainability Disclosure Standards, issued by its sister board. The standards are to be referred to as 'IFRS Accounting Standards' rather than 'International Financial Reporting Standards', 'IFRS', 'IFRSs' or 'IFRS Standards'. [IFRS 18 Appendix A].

### Extract from IFRS 18

#### Appendix A Defined terms

|                                  |  |
|----------------------------------|--|
| <b>IFRS Accounting Standards</b> | Accounting standards issued by the International Accounting Standards Board. They comprise: <ul style="list-style-type: none"><li>(a) International Financial Reporting Standards;</li><li>(b) International Accounting Standards;</li><li>(c) IFRIC Interpretations; and</li><li>(d) SIC Interpretations.</li></ul> IFRS Accounting Standards were previously known as International Financial Reporting Standards, IFRS, IFRSs and IFRS Standards. |
|----------------------------------|--|

Consequential amendments have been made to references to IFRS, IFRSs or IFRS Standards in some, but not all, other IFRS accounting standards to reflect this change. [IFRS 18.BC425].

IAS 8 requires an explicit and unreserved statement of compliance with 'IFRS Accounting Standards' in the notes. [IAS 8.6B].



## How we see it

The *IFRS Foundation Trade Mark Guidelines*<sup>3</sup> state that the set of Accounting Standards issued by the IASB must be referred to as 'IFRS Accounting Standards' and that 'IFRS' or 'IFRSs' cannot be used.

Once IFRS 18 is effective, entities are required to refer to the set of standards and interpretations issued by the IASB as IFRS Accounting Standards.

In the meantime, entities ought to consider referring to 'IFRS Accounting Standards' when making the compliance statement in accordance with IAS 1.16 in order to explicitly differentiate between the information disclosed under IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

We acknowledge that local regulators could require otherwise, in which case, the local requirements must be complied with. In either case, the reference to the accounting framework must be the same in both the financial statements and the auditor's opinion.

### 1.3 The identification of financial statements

Like IAS 1, IFRS 18 requires an entity to "clearly identify the financial statements and distinguish them from other information in the same published document". [IFRS 18.25]. The related application guidance has been updated to allow for the differing requirements of financial statements provided electronically, now stating that if "an entity provides the financial statements electronically, an entity considers other ways to meet the requirements - for example, by appropriate digital tagging of information provided in the financial statements". [IFRS 18.B10].

3 [IFRS Foundation® Trade Mark Guidelines](#). Available on the IFRS Foundation's website.

## 2 Roles, aggregation and labelling

The IASB sets out the objective of financial statements, as follows: [IFRS 18.9]

### Extract from IFRS 18

#### Objective of financial statements

- 9 The objective of financial statements is to provide financial information about a 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 entity and in assessing management's stewardship of the entity's economic resources.

Materiality requirements set out whether information is required to be provided by an entity, not where in the financial statements to include that information

To achieve the objective of financial statements, the primary financial statements and the notes have distinct and complementary roles in providing financial information to users. For such information to be useful, it needs to be appropriately aggregated and labelled, without obscuring material information. IFRS 18 defines the roles of the financial statements and provides additional guidance (compared to that previously included in IAS 1) to assist entities in determining how best to present and label summarised (or aggregated) information in the primary financial statements and disclose material detailed (or disaggregated) information in the notes. All three aspects are discussed in more detail in the sub-sections below.

IFRS 18 differentiates between 'presenting' information in the primary financial statements and 'disclosing' it in the notes and introduces a principle for determining the location of information based on identified 'roles' of the primary financial statements and the notes (see section 2.1 below).

The Board stated that the materiality requirements apply equally to all requirements to present or disclose information. Information is either material (and, therefore, contributes to the objective of financial statements) or it is not material (and, therefore, is not required). As such, the materiality requirements set out whether information is required to be provided by an entity, not where in the financial statements to include that information. [IFRS 18.BC53].

IFRS 18 requires an entity to aggregate and disaggregate information with reference to similar and dissimilar characteristics while keeping in mind the roles of the primary financial statements and the notes (see section 2.2 below).

To represent an item faithfully, IFRS 18 requires an entity to provide all the descriptions and explanations necessary for a user to understand the item. It also includes guidance on determining informative labels in order to provide useful information (see section 2.3 below). For example, the use of the term 'other' is generally *not* considered to provide useful information.

### 2.1 The roles of the primary financial statements and the notes

The Board observed that users pay more attention to information presented in the primary financial statements and use it more often compared to information disclosed in the notes. [IFRS 18.BC45]. Therefore, in order to meet the objective of financial statements, an entity 'presents' summarised (or aggregated) information in the primary financial statements and 'discloses' more detailed (or disaggregated) information in the notes. That said, an entity is only required to present or disclose material information,<sup>4</sup> as IFRS accounting standards do not apply to immaterial items. [IFRS 18.15].

<sup>4</sup> Refer to IFRS 18.19 and IFRS 18.B1-B5.

The distinct and complementary roles of the primary financial statements and the notes are as follows: [IFRS 18.16, IFRS 18.17]

#### Extract from IFRS 18

- 16** The role of the primary financial statements is to provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that are useful to users of financial statements for:
- (a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;
  - (b) making comparisons between entities, and between reporting periods for the same entity; and
  - (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.
- 17** The role of the notes is to provide material information necessary:
- (a) to enable users of financial statements to understand the line items presented in the primary financial statements (see paragraph B6); and
  - (b) to supplement the primary financial statements with additional information to achieve the objective of financial statements (see paragraph B7).

Since the primary financial statements serve as a useful structured summary, they are more prominent than information disclosed in the notes. However, this does not mean the information disclosed in the notes is secondary to, or less important than, information presented in the primary financial statements. The notes have a different role from the primary financial statements both in digital<sup>5</sup> and paper-based reporting. Understanding those respective roles helps an entity determine where to provide particular information in the financial statements. [IFRS 18.BC49].

This difference in roles between the primary financial statements and the notes means that there will also be a difference in the extent of the information required in the notes compared to that in the primary financial statements. Specifically: [IFRS 18.18]

- (a) In order to serve as a structured summary, the primary financial statements will, by design, provide more summarised, or aggregated, information than that provided in the notes  
And
- (b) In order to provide material information, the notes will need to contain more detailed and disaggregated information about the entity's assets, liabilities, equity, income, expenses and cash flows than information in the primary financial statements

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5 Refer to IFRS 18.BC62-BC63.

IFRS 18 distinguishes between an 'item', a 'line item' and other material information about items and line items

### 2.1.1 Information presented in the primary financial statements

An entity needs to assess what material information to present in its primary financial statements to meet their role of providing a useful structured summary. [IFRS 18.21].

IFRS 18 distinguishes between: [IFRS 18.41]

- **An 'item'**

An item is an asset, liability, equity instrument or reserve, income, expense or cash flow or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses or cash flows

And

- **A 'line item'**

A line item is an item that is presented separately in the primary financial statements

All material information cannot be presented in (or on the face of) the primary financial statements as too many line items would clutter the primary financial statements, thereby making it difficult for users to obtain an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows. An entity is required to consider its specific facts and circumstances to determine what information will provide an understandable overview to users, while avoiding clutter. [IFRS 18.BC54].

All of the aspects of the role of the primary financial statements, set out in IFRS 18.16 (see section 2.1 above), help an entity to determine whether or not to present an item as a line item in its primary financial statements in order to contribute to a useful structured summary. This is shown in the following Illustration based on an example included in the *Basis for Conclusions* on IFRS 18: [IFRS 18.BC55]



#### **Illustration 2-1: Determining whether or not to present a line item based on the aspects of the role of the primary financial statements**

Assume an entity undertakes a major restructuring during the reporting period and concludes that information about that restructuring is material.

In determining whether to present a line item for 'restructuring expenses' in the statement of profit or loss, the entity needs to consider whether such a line item contributes to a 'useful structured summary' by helping users to:

**(a) Obtain an understandable overview of the entity's expenses for the period**

Separate presentation of the restructuring expenses could help users understand an increase in total operating expenses for the current period.

**(b) Make comparisons between entities or between reporting periods**

Separately presenting the restructuring expenses, since they lack persistence, could make other line items more comparable to the amounts presented by this entity in prior periods as well as to amounts presented by other entities, thereby aiding trend analysis by users.

Or

**(c) Identify items or areas about which users might wish to seek additional information in the notes**

When the notes include additional information about restructuring expenses, presenting these expenses separately on the face of the primary financial statements (and including a cross-reference to the related note) could draw users' attention to that additional information.

Some IFRS accounting standards contain specific requirements for presentation in the primary financial statements. The Board noted that, in some cases, an entity will need to assess whether applying these requirements will result in a useful structured summary. However, the Board concluded that certain requirements will always be necessary for the primary financial statements to provide useful structured summaries. For example, the requirements to classify income and expenses into categories and present the totals and subtotals specified in IFRS 18 in the statement of profit or loss (see section 3 below). [IFRS 18.BC56].

The standard, therefore, lists the specific requirements, as follows:  
[IFRS 18.22]

#### Extract from IFRS 18

- 22** To provide a useful structured summary in a primary financial statement, an entity shall comply with specific requirements that determine the structure of the statement. The specific requirements are:
- (a) for the statement of profit or loss-the requirements in paragraphs 47, 69, 76 and 78;
  - (b) for the statement presenting comprehensive income-the requirements in paragraphs 86-88;
  - (c) for the statement of financial position-the requirements in paragraphs 96 and 104;
  - (d) for the statement of changes in equity-the requirements in paragraph 107; and
  - (e) for the statement of cash flows-the requirements in paragraph 10 of IAS 7.

Section 3 below addresses the new requirements IFRS 18, in (a) above, for the structure of the statement of profit or loss.

The requirements in (b)-(e) of the extract above have been brought over from IAS 1 mostly unchanged, aside from certain narrow-scope amendments, including:

- Replacing the term 'reliable and more relevant' with 'a useful structured summary' when referring to presentation of the statement of financial position based on the order of liquidity [IFRS 18.96]
- Including 'goodwill' in the list of line items to be presented in the statement of financial position (previously IAS 1.54) [IFRS 18.103(d)]

These changes are not further discussed in this publication. For guidance on the requirements currently included in IAS 1, see Chapter 3 of International GAAP® 2026.<sup>6</sup>

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6 [Available on ey.com/IFRS](https://www.ey.com/IFRS).

## 2.1.1.A Required line items

### Extract from IFRS 18

- 103 An entity shall present in the statement of financial position line items for:
- (a) property, plant and equipment;
  - (b) investment property;
  - (c) intangible assets;
  - (d) goodwill;
  - (e) financial assets (excluding amounts shown under (g), (j) and (k));
  - (f) portfolios of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;
  - (g) investments accounted for using the equity method;
  - (h) biological assets within the scope of IAS 41 *Agriculture*;
  - (i) inventories;
  - (j) trade and other receivables;
  - (k) cash and cash equivalents;
  - (l) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5;
  - (m) trade and other payables;
  - (n) provisions;
  - (o) financial liabilities (excluding amounts shown under (m) and (n));
  - (p) portfolios of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;
  - (q) liabilities and assets for current tax, as defined in IAS 12;
  - (r) deferred tax liabilities and deferred tax assets, as defined in IAS 12; and
  - (s) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5.

[IFRS 18.103].

Some IFRS accounting standards, including IFRS 18, require specific line items to be presented separately in the primary financial statements (e.g., IFRS 18.75 - see section 3.4 below - and IFRS 18.103 in the extract above). The Board concluded that an entity is not required to present such line items in one of the primary financial statements, if those line items are not necessary for that statement to provide a useful structured summary. This applies even where an IFRS accounting standard describes the presentation of the line item as a minimum requirement. [IFRS 18.23, IFRS 18.B8, IFRS 18.BC57].

The outcome of these changes is that, despite the requirement for specified line items, IFRS 18 has effectively introduced a two-step approach to determining which of these line items to present:

**Step 1:** Assess which required line items are material

**Step 2:** Assess whether presentation of the material required line items is necessary to present a useful structured summary

However, if an entity concludes it does not need to present a line item specifically required by IFRS accounting standards separately in the primary financial statements, it still needs to disclose that item in the notes, unless it is immaterial. For example, if an entity concludes that presenting ‘impairment losses’ determined under IFRS 9 *Financial Instruments* is not necessary to provide a useful structured summary of the entity’s income and expenses, the entity is still required to disclose those losses in the notes, unless that information is immaterial. [IFRS 18.B8, IFRS 18.BC58].



### How we see it

The interaction between the line items required by IFRS accounting standards, materiality guidance and the useful structured summary concept involves some nuances that might not always be easy to reflect in practice. Thus, determining whether to present or disclose information in, or to exclude information from, the financial statements will, in some cases, involve difficult judgements.

An entity presents additional subtotals and line items if they are necessary to provide a useful structured summary in the primary financial statements

#### 2.1.1.B Additional line items and additional subtotals

The standard specifies that an entity presents additional subtotals and line items if they are necessary to provide a useful structured summary in the primary financial statements. [IFRS 18.B9, IFRS 18.BC59]. However, the standard restricts the type of additional line items or subtotals by including the following requirements: [IFRS 18.24]

##### Extract from IFRS 18

- 24 An entity shall present additional line items and subtotals if such presentations are necessary for a primary financial statement to provide a useful structured summary. 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.

While IAS 1<sup>7</sup> included similar requirements for additional *subtotals*, IFRS 18 has extended the requirements to apply to additional line items presented in the primary financial statements. IFRS 18.24(a), therefore, requires both additional line items and additional subtotals to be made up of amounts recognised and measured “in accordance with IFRS Accounting Standards”. However, neither IFRS 18 nor the Basis for Conclusions on IFRS 18 further explain what is meant by “in accordance with IFRS Accounting Standards”.

The requirement in IFRS 18.24(b) above, not previously included in IAS 1, limits the inclusion of additional line items and additional subtotals in the primary financial statements to those that fit the specified structure of that particular primary financial statement, as set out in IFRS 18.22 (see section 2.1.1 above). For example, a subtotal representing ‘gross profit net of income taxes’ mixes the operating and income tax categories and would,

7 Refer to IAS 1.55A and IAS 1.85A.

therefore, conflict with the requirement. The requirement in IFRS 18.24(c) above indicates that an entity's use of additional line items and additional subtotals must be retained from one reporting period to the next unless a change in presentation is warranted.

These requirements for additional subtotals and line items are meant to supplement the requirements for fair presentation previously included in IAS 1, that have now been moved to IAS 8 (see section 5.2 below). [IFRS 18.BC61].



## How we see it

Entities need to assess various factors in determining whether an additional line item or subtotal facilitates a useful structured summary, including:

- Entity-specific circumstances
  - Common practice among peers
- And
- The information needs of users

This assessment involves significant judgement.

In addition, regulators in many jurisdictions may scrutinise the basis for including additional line items and subtotals, as opposed to the alternative of only communicating such additional line items or subtotals outside the financial statements.

## Frequently asked questions

### Question 2-1: Is it acceptable to present separately realised and unrealised gains and losses on assets and liabilities measured at fair value through profit or loss?

IFRS accounting standards allow or require various types of assets to be measured at fair value, with the resulting fair value gains or losses being recognised in profit or loss. In some industries, such as asset management, realised and unrealised fair value gains and losses are an important metric. Moreover, regulatory requirements in certain jurisdictions and some national GAAPs require the presentation of realised and unrealised fair value gains in particular circumstances. However, IFRS accounting standards do not define the terms 'realised' and 'unrealised', nor is there any specific guidance on how to calculate such amounts. In the absence of a definition or specific guidance, the question arises as to whether realised and unrealised fair value gains or losses are permitted to be disaggregated and presented separately in the statement of profit or loss, that is, whether such a line item would:

- (a) Meet the disaggregation criteria for line items in the statement of profit or loss to contribute to a useful structured summary [IFRS 18.41(c), IFRS 18.B78]
- And
- (b) Constitute an amount "recognised and measured in accordance with IFRS Accounting Standards" [IFRS 18.24(a)]

#### (a) Disaggregation criteria

The IFRS 18 disaggregation requirements entail explicit consideration of the similar and dissimilar characteristics of income and expenses, and the standard is clear that a single dissimilar characteristic could be sufficient to make disaggregated information material. [IFRS 18.B22]. Whether a fair value gain or loss is 'realised' or 'unrealised' constitutes a characteristic and while not specifically listed in IFRS 18.B78, this characteristic may provide material information to a reader about the degree of measurement, or outcome, uncertainty associated with the fair value gain or loss. [IFRS 18.B78(e)].

However, all material disaggregated information cannot be presented as line items in the primary financial statements and the standard requires an entity to use its judgement to determine if disaggregation into a separate line item is required for the statement of profit or loss to provide a useful structured summary. [IFRS 18.41(c), IFRS 18.B78]. The standard also requires an entity to disaggregate items in order to disclose material information in the notes. [IFRS 18.41(d), IFRS 18.B78]. Therefore, if an entity concludes that separate presentation of unrealised fair value gains and losses does not meet the criteria to be presented as a line item, separate disclosure in the notes could still be required if the resulting information is material, even in cases where there is no specific disclosure requirement to do so.

#### **(b) In accordance with IFRS accounting standards**

It is clear that the total fair value gains and losses, recognised in profit or loss, for the current period on assets and liabilities measured at fair value are recognised and measured in accordance with IFRS accounting standards; while there is no guidance on how to separate this total fair value gain or loss into its 'realised' and 'unrealised' components, it is not explicitly or implicitly precluded. As noted above, IFRS 18 does not explain what is meant by "in accordance with IFRS Accounting Standards", but it follows that an accounting policy appropriately developed under IAS 8 is by definition in accordance with IFRS accounting standards, which may suggest that separate presentation of 'realised' and 'unrealised' gains or losses does not conflict with IFRS 18.24(a).

In developing an accounting policy for disaggregating realised and unrealised fair value gains and losses, entities must consider the requirements in other standards for dealing with similar and related issues, for instance, the requirement to disclose the amount of current period fair value gains or losses attributable to the change in unrealised gains or losses for fair value measurements categorised (as a whole) within Level 3 of the fair value hierarchy, in paragraph 93(f) of IFRS 13 *Fair Value Measurement*.



#### **How we see it**

Since IFRS accounting standards, including IFRS 18, do not provide specific guidance on whether separate presentation of the 'realised' and 'unrealised' components of the current period fair value gains or losses may be appropriate, different practices may develop. It is important to consider the regulatory requirements in the different jurisdictions in which the entity operates, as there may be specific requirements to be followed. For instance, in certain industries or jurisdictions, local regulation requires separate presentation of the 'realised' and 'unrealised' components.

Furthermore, we believe that judgement must be applied to determine whether the separate presentation of realised and unrealised gains and losses contributes to a useful structured summary. If it does, the entity must:

- Label the line item accurately
- And
- Disclose its accounting policy for determining which part of the current period gains and losses are realised and unrealised to clarify the basis of the presentation.

## 2.1.2 Information disclosed in the notes

An entity is required to provide the information necessary for users to understand the line items presented on the face of the primary financial statements, and to include this information in the notes. IFRS 18 provides the following examples of such information: [IFRS 18.B6]

- (a) Disaggregation of the line items presented in the primary financial statements
  - (b) Descriptions of the characteristics of the line items presented in the primary financial statements
- And
- (c) Information about the methods, assumptions and judgements used in order to recognise, measure and present the items included in the primary financial statements

Similarly, an entity is required to supplement the primary financial statements by providing the additional information necessary to achieve the objective of financial statements. In other words: [IFRS 18.B7]

- (a) The information specifically required by an IFRS accounting standard
- For example:
- (i) Information about an entity's unrecognised contingent assets and contingent liabilities required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- And
- (ii) Information about an entity's exposure to the various types of risks, such as credit risk, liquidity risk and market risk required by IFRS 7
- And
- (b) Additional information required for a user's understanding
- Like IAS 1, IFRS 18 requires an entity to consider whether additional information needs to be provided when the specific requirements in IFRS accounting standards are insufficient to enable users to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.
- [IFRS 18.20].

As explained in section 2.1.1.A above, IFRS 18 clarifies that an entity is not required to present a specific line item or make a disclosure required by an IFRS accounting standard if that information is not material. This is the case even if that IFRS accounting standard contains a list of specific requirements or describes them as minimum requirements. [IFRS 18.19].

## 2.1.3 Cross references between the primary financial statements and the notes

IFRS 18, like IAS 1, requires an entity to cross-reference each item in the primary financial statements to any related information in the notes. However, an amount disclosed in a note is often included in one or more line items in the primary financial statements. In such cases, IFRS 18 adds a requirement to disclose in that note the line item(s) in the primary financial statements in which the amounts are included. [IFRS 18.114].

This signposting in both directions ensures that users understand how amounts disclosed in the notes relate to the line items presented in the primary financial statements. [IFRS 18.BC324].



## How we see it

We believe that the new requirement to cross refer from the notes to the primary financial statements, when amounts disclosed in the notes are included in one or more lines in the primary financial statements, will improve the transparency of financial statements for users and make it easier for them to understand how amounts disclosed in the notes link to those presented in the primary financial statements.

## 2.2 Aggregation and disaggregation

Financial statements are the result of processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income, expenses and cash flows. [IFRS 18.B16]. The effective reporting of these assets, liabilities, equity, income, expenses and cash flows (which result from large numbers of transactions and other events) necessarily requires aggregating some, or in fact most, of the individual amounts into items that are material to users before presenting and disclosing these amounts within the financial statements.

IFRS 18 requires an entity to aggregate and disaggregate information with reference to similar and dissimilar characteristics, while keeping in mind the roles of the primary financial statements and the notes. The application guidance sets out that items aggregated and presented as line items in the primary financial statements must have "at least one similar characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows." [IFRS 18.B21]. However, since the role of the primary financial statements is to provide a useful structured summary, the line items in the primary financial statements will, by design, aggregate items that have sufficiently dissimilar characteristics, such that disaggregated information about the aggregated items is likely to be material and will, therefore, need to be disclosed in the notes (see section 2.1.2 above).

IFRS 18 defines aggregation, disaggregation and classification, as follows: [IFRS 18 Appendix A]

### Extract from IFRS 18

#### Appendix A

#### Defined terms

|                       |  |
|-----------------------|--|
| <b>aggregation</b>    | The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification. |
| <b>classification</b> | The sorting of assets, liabilities, equity, income, expenses and cash flows based on shared characteristics.   |
| <b>disaggregation</b> | The separation of an item into component parts that have characteristics that are not shared.  |

Aggregation and disaggregation of information requires an entity to avoid both:

- Omitting useful information by providing insufficient detail
- And
- Obscuring information by providing too much detail

To illustrate, on one hand, an entity's total assets, total liabilities, total equity, total income, total expenses and total cash flows obviously provides information about the entity's financial position, financial performance and cash flows, but this information is too aggregated to be useful on its own. On the other hand,

disaggregated information about individual transactions or other events provides detailed information but can be so detailed that it obscures material information. Therefore, an entity needs to apply judgement to determine how much detail is necessary to provide useful information. [IFRS 18.BC73].

## 2.2.1 Principles of aggregation and disaggregation

Unless it overrides specific aggregation or disaggregation requirements in IFRS accounting standards, an entity is required to: [IFRS 18.41]

- (a) Classify and aggregate assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics
- (b) Disaggregate items based on dissimilar characteristics
- (c) Aggregate or disaggregate items into line items that are presented in the primary financial statements so that they provide useful structured summaries (see section 2.1 above)
- (d) Aggregate or disaggregate items in order to disclose material information in the notes (see section 2.2 above)

And

- (e) Ensure that the aggregation and disaggregation of information in the financial statements do not obscure material information

Applying the principles above, an entity shall disaggregate items whenever the resulting information is material; and where the application of (c) above results in an entity not presenting material information in the primary financial statements, it shall disclose that material information in the notes. [IFRS 18.42].

To assist entities in applying the principles of aggregation and disaggregation, the Board decided to provide application guidance on: [IFRS 18.BC74]

- (a) The process involved in deciding whether to aggregate or disaggregate information (discussed below)
- (b) The basis of aggregation and disaggregation (including the characteristics of assets, liabilities, equity, income and expenses to consider in assessing whether items have dissimilar characteristics) (see section 2.2.2 below)

And

- (c) The description of items presented or disclosed (see section 2.3 below)

The Board replaced the requirements for aggregation and disaggregation in IAS 1, including a requirement for an entity to present separately each 'material class of similar items', with the principles of aggregation and disaggregation in IFRS 18. Entities are now required to aggregate and disaggregate items based both on their characteristics and the roles of the primary financial statements and the notes. That said, the Board expects that an entity would generally conclude that line items previously determined to be a 'material class of items' also contribute to the primary financial statements providing useful structured summaries. [IFRS 18.BC75].

The Board developed the principles of aggregation and disaggregation from the descriptions of 'classification' and 'aggregation' in the *Conceptual Framework for Financial Reporting* (Conceptual Framework). Those descriptions recognise shared characteristics as a condition for classifying and aggregating items. [IFRS 18.BC72].



### How we see it

While IFRS 18 includes more guidance on aggregation and disaggregation, including the guidance on the principles of aggregation and disaggregation above, it remains a difficult balance to strike. Entities will need to apply judgement to determine how much detail is necessary to provide useful information, without obscuring material information.

To apply the requirements above, an entity is required to aggregate items based on their shared characteristics (i.e., aggregate items with similar characteristics) and disaggregate items based on characteristics that are not shared (i.e., disaggregate items with dissimilar characteristics). In order to do this, an entity must: *[IFRS 18.B17]*

- (a) Identify the assets, liabilities, equity, income, expenses and cash flows that arise from individual transactions or other events
- (b) Classify and aggregate the identified assets, liabilities, equity, income, expenses and cash flows into 'items' based on their shared characteristics so that the 'line items' presented in the primary financial statements and the 'items' disclosed in the notes have at least one similar characteristic, in addition to the shared characteristic of meeting the definition of assets, liabilities, equity, income, expenses, or cash flows *[IFRS 18.B21]*

And

- (c) Disaggregate items based on dissimilar characteristics:
  - (i) In the primary financial statements, so that the primary financial statements provide useful structured summaries

And

- (ii) In the notes, so that the notes disclose material information

The steps above can be applied in varying order when applying the principles of aggregation and disaggregation. *[IFRS 18.B18]*.

As a reminder, the principles of aggregation and disaggregation relate to individual items of income or expense and assets or liabilities. The offsetting requirements are substantially unchanged from IAS 1 and an entity must not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS accounting standard. *[IFRS 18.44]*

## 2.2.2 Basis of aggregation and disaggregation

The Board concluded it was not feasible to create a specific disaggregation threshold (such as a mandatory quantitative threshold) that could apply to all entities. Any threshold might conflict with the definition of material information and the requirement for entities to include a qualitative assessment in their materiality judgements. *[IFRS 18.BC76]*. Therefore, the Board decided to require an entity to aggregate (and disaggregate) assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar (and dissimilar) characteristics. IFRS 18 is explicit that this process will require an entity to use its judgement. *[IFRS 18.B19]*. While there is no quantitative threshold, there is a qualitative 'minimum' threshold, in that items that are aggregated and presented as line items in the primary financial statements must share at least one characteristic other than meeting the definition of assets, liabilities, equity, income, expenses or cash flows. *[IFRS 18.B21]*.

The standard states that the more similar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that aggregating them will fulfil the role of the primary financial statements (i.e., to provide useful structured summaries) or the notes (i.e., to provide material information). Conversely, the more dissimilar the characteristics of assets, liabilities, equity, income, expenses and cash flows are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes. *[IFRS 18.B20]*.

Applying the principles of aggregation and disaggregation, an entity must disaggregate items with dissimilar characteristics when the disaggregated information is material. A single dissimilar characteristic could result in disaggregated information about an item being material. *[IFRS 18.B22]*.

An entity is required to aggregate (and disaggregate) assets, liabilities, equity, income, expenses and cash flows from individual transactions and other events based on similar (and dissimilar) characteristics

This is shown in the following illustration based on the example included in the application guidance in IFRS 18: [IFRS 18.B23]



### **Illustration 2-2: Determining line items and disaggregation in the notes**

An entity presents its financial assets, comprising equity investments and debt investments, separately from its non-financial assets in its statement of financial position. In addition to being dissimilar to non-financial assets, these financial assets have dissimilar characteristics when compared to each other because of their different measurement bases (i.e., some are measured at fair value through profit or loss and others at amortised cost).

Assume the entity determined that presenting separate line items for the financial assets based on those measurement bases provides a useful structured summary. This disaggregation results in:

- A line item for equity and debt investments measured at fair value through profit or loss

And

- A line item for debt investments measured at amortised cost

However, while the equity and debt investments are both measured at fair value, these two types of investments are also dissimilar because equity investments expose the entity to different risks compared to debt investments. The entity would, therefore, need to assess whether further disaggregation of the financial assets measured at fair value through profit or loss (i.e., into equity investments and debt investments) is needed for the statement of financial position to provide a useful structured summary.

If the entity concludes this further disaggregation is not necessary to fulfil the role of the primary financial statements, it then needs to consider if the disaggregated information is material, and if so, must disclose that disaggregated information in the notes.

If the equity investments, in turn, have other dissimilar characteristics, the entity will need to further disaggregate those equity investments in the notes if the disaggregated information is material.

### **Frequently asked questions**

#### **Question 2-2: How are foreign exchange differences presented within the five categories in the statement of profit or loss?**

As discussed in section 3.2.7 below, IFRS 18 requires an entity to classify foreign exchange differences into the same profit or loss category as the income and expense from the item that gave rise to that foreign exchange difference, with some exceptions. The standard also requires an entity to aggregate items with similar characteristics and disaggregate items with dissimilar characteristics, in order to present separate line items in the statement of profit or loss that provide a useful structured summary. These requirements raise the question whether it is appropriate to present foreign exchange differences:

- (a) In the same line item as the transaction which gave rise to those differences (e.g., including the foreign exchange differences on a trade payable for inventory within the cost of sales line item in the operating category)  
Or
- (b) As a separate 'foreign exchange differences' line item in each profit or loss category (on the basis that foreign exchange differences are sufficiently dissimilar from the other income and expenses arising from the same underlying transaction to warrant separate presentation)

This is a judgemental area, as the aggregation and disaggregation requirements need to be balanced against the requirement for the statement of profit or loss to present a useful structured summary (see section 2.1 above). The materiality guidance (see IFRS 18.B1-B5) and the requirements in IFRS accounting standards to present specific line items (see section 2.1.1.A above) also need to be considered.

Each entity must consider its own facts and circumstances in coming to an appropriate conclusion. Entities must also consider relevant industry practice and the opinion of local regulators.

Regardless of the ultimate presentation, entities with material foreign exchange differences will also need to disclose in the notes in which line item(s) in the statement of profit or loss material amounts of foreign exchange differences have been included (see section 2.1.3 above).

[IFRS 18.114, IAS 21.52].

### 2.2.2.A Examples of similar and dissimilar characteristics

The application guidance in IFRS 18 sets out characteristics an entity considers in making the judgements discussed in section 2.2.1 above. The following table provides examples of those characteristics.

[IFRS 18.B19, IFRS 18.B78, IFRS 18.B110].

| Characteristics   | Examples  |
|---|---|
| <b>Examples relating to both transactions and balances:</b>                           |   |
| Nature  | Transactions: <ul style="list-style-type: none"> <li>▪ Depreciation of property, plant and equipment</li> <li>▪ Staff costs</li> </ul> Balances: <ul style="list-style-type: none"> <li>▪ Equity investments</li> <li>▪ Debt investments</li> </ul>   |
| Function (or role) within the activities of the entity                                | <ul style="list-style-type: none"> <li>▪ Selling expenses</li> <li>▪ Distribution expenses</li> <li>▪ Administrative expenses</li> <li>▪ Investment property</li> </ul>   |
| Measurement basis   | <ul style="list-style-type: none"> <li>▪ Fair value through profit or loss</li> <li>▪ Amortised cost</li> </ul>   |
| Measurement uncertainty, outcome uncertainty or other risks associated with the items | Measurement uncertainty: <ul style="list-style-type: none"> <li>▪ Estimates, e.g., recoverable amount under IAS 36 <i>Impairment of Assets</i>, lifetime expected credit losses under IFRS 9.</li> </ul> Outcome uncertainty: <ul style="list-style-type: none"> <li>▪ Provision for a legal dispute</li> <li>▪ Variable consideration</li> </ul> |
| Geographical location or regulatory environment                                       | <ul style="list-style-type: none"> <li>▪ Property, plant and equipment located in volatile jurisdictions</li> <li>▪ Jurisdictional requirements for employee benefits</li> </ul>  |
| Tax effects   | <ul style="list-style-type: none"> <li>▪ Where different tax rates apply to the items</li> <li>▪ Where assets or liabilities have a different tax base</li> </ul>   |

| <b>Examples relating to income and expenses<br/>(i.e., related only to transactions):</b>                 |  |
|---|--|
| Persistence   | <ul style="list-style-type: none"> <li>▪ How frequently the item of income or expense occurs</li> <li>▪ Whether the item is recurring or non-recurring</li> </ul>  |
| Timing of recognition   | Income or expenses arising: <ul style="list-style-type: none"> <li>▪ On initial recognition of an item</li> <li>▪ From a subsequent change in an estimate relating to the item</li> </ul>                    |
| <b>Examples relating to assets, liabilities and items of equity<br/>(i.e., related only to balances):</b> |  |
| Duration and timing of recovery or settlement   | <ul style="list-style-type: none"> <li>▪ Whether the item is classified as current or non-current</li> <li>▪ Whether the item's recovery or settlement forms part of the entity's operating cycle</li> </ul> |
| Liquidity   | <ul style="list-style-type: none"> <li>▪ Cash</li> <li>▪ Receivables</li> <li>▪ Long-term fixed deposits</li> </ul>  |
| Type  | <ul style="list-style-type: none"> <li>▪ Type of good</li> <li>▪ Type of service</li> <li>▪ Type of customer</li> </ul>  |
| Restrictions on the use or transferability the item   | <ul style="list-style-type: none"> <li>▪ Restricted cash</li> <li>▪ Ring-fenced assets</li> </ul>  |

The standard also lists 'size' as a characteristic for both transactions and balances, but it is not immediately clear if this is meant to refer to only quantitative materiality as neither IFRS 18 nor the Basis for Conclusions on IFRS 18 expands on this characteristic. The standard does, however, provide more guidance on aggregating immaterial items with material items, or with other immaterial items, and the related impact on labelling such an aggregated item (see section 2.3. below).

IFRS 18 explains that the assessment of whether to present additional line items in the statement of financial position is based on the entity's judgement and its assessment of the nature or function of the assets or liabilities. The examples of characteristics may assist an entity in identifying the relevant nature or function of the assets and liabilities. By requiring the use of nature and function to disaggregate assets and liabilities in the statement of financial position, IFRS 18 retains IAS 1's emphasis on presentation of line items based on the nature and function of assets and liabilities. This emphasis on nature and function in the statement of financial position also aligns with a similar emphasis in the statement of profit or loss. [IFRS 18.B109, IFRS 18.BC315].

## 2.2.2.B Examples of items that have sufficiently dissimilar characteristics

The application guidance in IFRS 18 sets out examples of income, expenses, assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that separate presentation in the statement of profit or loss or statement of financial position, or separate disclosure in the notes, will be necessary to provide material information. [IFRS 18.42, IFRS 18.B79, IFRS 18.B111].

### Extract from IFRS 18

- B79** Income and expenses that might have sufficiently dissimilar characteristics that presentation in the statement of profit or loss is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:
- (a) write-downs of inventories, as well as reversals of such write-downs;
  - (b) impairment losses for property, plant and equipment, as well as reversals of such impairment losses;
  - (c) income and expenses from restructurings of an entity's activities and reversals of any provisions for restructuring;
  - (d) income and expenses from disposals of property, plant and equipment;
  - (e) income and expenses from disposals of investments;
  - (f) income and expenses from litigation settlements;
  - (g) reversals of provisions; and
  - (h) non-recurring income and expenses not included in (a)-(g).
- B111** Assets, liabilities and items of equity that might have sufficiently dissimilar characteristics that presentation in the statement of financial position is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information include:
- (a) property, plant and equipment disaggregated into classes in accordance with IAS 16;
  - (b) receivables disaggregated into amounts receivable from trade customers, amounts receivable from related parties, prepayments and other amounts;
  - (c) inventories disaggregated, applying IAS 2, into items such as merchandise, production supplies, materials, work in progress and finished goods;
  - (d) trade payables disaggregated, applying IAS 7, to provide separately the amounts of those payables that are part of supplier finance arrangements;
  - (e) provisions disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and
  - (f) equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium and reserves.

The application guidance is expected to help entities understand the principles of aggregation and disaggregation by illustrating them with some common examples. However, the transactions and balances listed in the extract will not be applicable to all, and they are, therefore, presented as examples rather than an exhaustive list.

### 2.2.3 Aggregation and disaggregation of operating expenses presented by function

The requirement to aggregate or disaggregate items in order to present line items that provide a useful structured summary in the primary financial statements, discussed in section 2.2 above, applies equally to the presentation of operating expenses by nature or by function (see section 3.4.2 below). The application guidance to IFRS 18 includes the following example in relation to an entity presenting its operating expenses by function. [IFRS 18.B85].

#### Extract from IFRS 18

##### **Aggregation of operating expenses**

**B85** To apply paragraph 78, an entity shall consider what level of aggregation for operating expenses provides the most useful structured summary. For example, an entity might have various administrative activities (such as human resources, information technology, legal and accounting). To provide a useful structured summary, the entity might aggregate operating expenses relating to those activities based on their shared characteristic—all are expenses for resources consumed in administrative activities. Accordingly the entity might present them in a line item labelled as 'administrative expenses'. The entity might also have expenses for resources consumed in selling activities. These expenses have a dissimilar characteristic from the administrative expenses—selling expenses arise from resources consumed in selling activities and administrative expenses arise from resources consumed in administrative activities. These characteristics are sufficiently dissimilar that disaggregation—presentation in separate line items for selling expenses and administrative expenses—might be necessary to provide a useful structured summary of the entity's expenses.



#### How we see it

Despite the example included in IFRS18.B85, selling and administrative expenses do not always need to be presented separately. An entity must apply the general aggregation and disaggregation requirements when deciding which line items to present in the statement of profit or loss and could, therefore, reach a different, equally valid conclusion, compared to that in the example.

For example, since selling and administrative expenses may share other characteristics, it might be necessary to aggregate these expenses into one line item in certain circumstances to present a useful structured summary. To achieve the latter, the aggregation of individually material items might be required to avoid cluttering the primary financial statements, provided that material information thus aggregated is disclosed in the notes.

In addition, the concept of the 'useful structured summary' takes a user perspective. [IFRS 18.16]. An entity must, therefore, apply judgement and might conclude that a user would not find separate line items important for making comparisons or understanding the overview of the results.

IFRS 18 includes requirements for the description of line items presented in the primary financial statements and items disclosed in the notes

## 2.3 Description of items

IFRS 18 includes requirements for the description of line items presented in the primary financial statements and items disclosed in the notes. This is to ensure that the descriptions used by entities are complete. For example, some entities provide information about 'unusual' income or expense items without explaining why those items are considered to be 'unusual'. [IFRS 18.BC77].

To achieve a faithful representation, an entity needs to provide all the descriptions and explanations that are necessary for a user to understand the item. In some cases, an entity might need to include the meaning of the terms used by the entity in the descriptions and explanations and disclose information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows. For example, if an entity described some items of income or expense as 'unusual', it would need to disclose its definition of 'unusual' items. [IFRS 18.BC78].

Therefore, the Board decided to require an entity to label and describe the items presented in the primary financial statements or disclosed in the notes in a way that faithfully represents the characteristics of those items. [IFRS 18.43].

Such items are often aggregations of individual items arising from transactions or other events. These aggregated items could be made up of individual items for which the information is material, individual items for which the information is immaterial, or a mix of both: [IFRS 18.B24]

### (a) A material item is aggregated with other material items

Such an aggregation could be provided to summarise material information. However, the entity would then be required to disclose disaggregated information about each material item.

### (b) A material item is aggregated with immaterial items

In this case, an entity would only need to provide disaggregated information about the material item if the immaterial information obscured the material information about that item.

### (c) Immaterial items are aggregated with other immaterial items

An entity might provide such an aggregation of immaterial items in order to complete a list of items, or a subtotal. Since items are immaterial, no disaggregated information would be required, subject to the guidance on using the label 'other' discussed below.

### 2.3.1 Using the label 'other'

Currently, some entities present or disclose a large amount of 'other' income or expenses without explaining what those 'other' items include; this is a matter of concern for users. The Board noted that using the label 'other' for such an aggregation is usually unhelpful and, therefore, it developed the application guidance below to help entities determine a more informative label and provide more useful information. [IFRS 18.B25, IFRS 18.BC79].

#### Extract from IFRS 18

- B25 An entity shall label items presented or disclosed as 'other' only if it cannot find a more informative label. Examples of how an entity might find a more informative label are:
- (a) if an item for which information is material is aggregated with items for which information is not material, finding a label that describes the item for which information is material; and

"An entity shall label items presented or disclosed as 'other' only if it cannot find a more informative label."

- (b) if items for which information is not material are aggregated:
  - (i) aggregating items that share similar characteristics and describing them in a way that faithfully represents the similar characteristics; or
  - (ii) aggregating items with other items that do not share similar characteristics and describing them in a way that faithfully represents the dissimilar characteristics of the items.

If an entity cannot find a more informative label than 'other': [IFRS 18.B26]

**(a) For any aggregation**

The entity needs to use a label which describes the aggregated item as precisely as possible (for example, 'other operating expenses' or 'other finance expenses').

**(b) For an aggregation comprising only immaterial items**

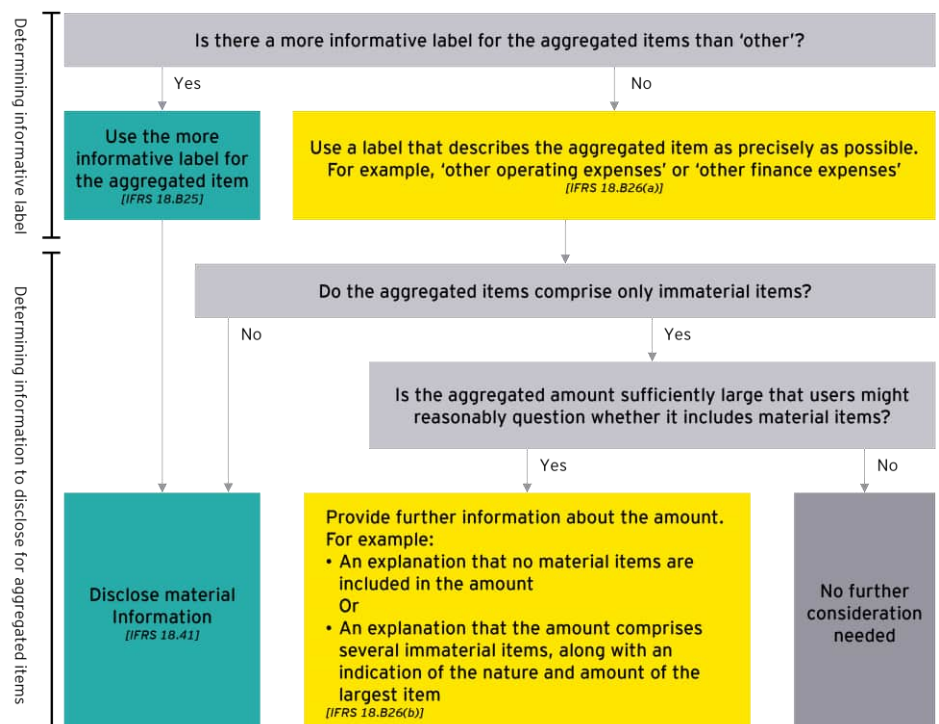
An entity could aggregate immaterial items despite them having dissimilar characteristics, resulting in an aggregated item that is cumulatively large despite comprising individually immaterial items. Where that is the case, the entity needs to consider whether the aggregated amount is large enough that users might reasonably question whether it includes material items. If so, the information needed to resolve that question is itself material information. [IFRS 18.BC80].

An entity in such a situation is required to disclose further information about the amount. Examples of such further information include:

- (i) An explanation that no items for which information would be material are included in the aggregated amount.
- (ii) An explanation that the aggregated amount comprises several items for which information would not be material, along with an indication of the nature and amount of the largest item.

The following diagram, based on Figure 7 in the Illustrative Examples to IFRS 18, sets out how an entity can navigate the requirements above: [IFRS 18.IE Figure 7]

**Figure 2-1: Determining informative labels and information for aggregated items**



## 3 Statement of financial performance

IFRS 18 states that all items of income and expense in a reporting period must be included in the statement of profit or loss unless an IFRS accounting standard permits otherwise. [IFRS 18.46]. Diversity in reporting had developed under IAS 1 and made it difficult for users to understand the information presented in the statement of profit or loss and compare information between entities. Operating profit, one of the most frequently used measures of performance, has until now not been defined in IFRS accounting standards, which has resulted in entities applying different definitions to the same subtotal. In an effort to eliminate this diversity, the IASB developed new requirements for the structure of the statement of profit or loss, specifically with the goal of increasing the comparability and understandability of the information presented in that primary statement. [IFRS 18.BC81].

To achieve this goal, the standard has added three specified categories to the existing categories of income taxes and discontinued operations: [IFRS 18.47, IFRS 18.BC82, IFRS 18.BC83]

### Extract from IFRS 18

- 47** An entity shall classify income and expenses included in the statement of profit or loss in one of five categories (see paragraph B29):
- (a) the operating category (see paragraph 52);
  - (b) the investing category (see paragraphs 53-58);
  - (c) the financing category (see paragraphs 59-66);
  - (d) the income taxes category (see paragraph 67); and
  - (e) the discontinued operations category (see paragraph 68).

To support the categories set out above, two additional subtotals are required, being: 1) 'operating profit or loss' and 2) 'profit or loss before financing and income tax', in addition to (total) profit or loss. The first subtotal is intended to give a relevant representation of an entity's operations, while the second is intended to allow users to analyse the performance of an entity before the effect of its financing decisions. The requirement to present these categories and subtotals ought to result in a more standardised statement of profit or loss. [IFRS 18.69, IFRS 18.BC84].

The IASB has developed the requirements based on the information needs of users, which vary in relation to each of the primary financial statements, resulting in different classification objectives for each. This means that while terminology might be the same across different primary statements (e.g., the statement of cash flows prepared under IAS 7), the purpose of those primary statements differs and, hence, there is no intended alignment between the categories. For example, 'investing activities', as defined in IAS 7, is intentionally different from the investing category in the statement of profit or loss, to reflect the different objectives of each of these primary statements. However, despite the lack of alignment, the Board concluded that using similar labels should not affect presentation of items as there is no requirement to label the categories in the statement of profit or loss, nor is an entity required to present a subtotal for each category. [IFRS 18.BC86, IFRS 18.BC87].

### 3.1 Overview of the new requirements

Sections 3.1.1 to 3.1.3 below provide a high-level summary of the new requirements and concepts relating to the classification and presentation of income and expenses in the statement of profit or loss. Each of these concepts is discussed in more detail in sections 3.2 to 3.4 below.

While it may be self-evident, it is worth noting that the classification requirements only apply to income and expenses included in profit or loss for the period, as a result of applying IFRS accounting standards. Therefore, the classification requirements do not apply to expenses that were capitalised to an asset, or are included in other comprehensive income for the year. That said, the classification requirements will apply to 'reclassification adjustments' which are items recognised in profit or loss which were previously recognised in other comprehensive income (commonly referred to as 'recycling').

### 3.1.1 Categories and subtotals

An example, based on a presentation by the IASB Staff,<sup>8</sup> of a typical statement of profit or loss (for an entity *without* a specified main business activity - see section 3.1.2 below) is shown in Figure 3-1:

**Figure 3-1: Presentation of the statement of profit or loss example**

#### Statement of profit or loss\*

|  |                         |
|--|-------------------------|
| Revenue  | Operating               |
| Cost of sales  |                         |
| <b>Gross profit</b>                                    |                         |
| Other operating income                                 |                         |
| Selling expenses                                       |                         |
| Research and development expenses                      |                         |
| General and administrative expenses                    |                         |
| Goodwill impairment loss                               |                         |
| Other operating expenses                               |                         |
| <b>Operating profit</b>                                |                         |
| Share of the profit from associates and joint ventures |                         |
| Gains on disposals of associates and joint ventures    | Financing               |
| <b>Profit before financing and income tax</b>          |                         |
| Interest expense on borrowings and lease liabilities   | Income taxes            |
| Interest expense on pension liabilities                |                         |
| <b>Profit before income tax</b>                        | Discontinued operations |
| <b>Profit from continuing operations</b>               |                         |
| Loss from discontinued operations                      |                         |
| <b>Profit for the year</b>                             |                         |

\* Applicable to an entity that does not have a specified main business activity of investing in assets and/or providing financing to customers.

|  |                |
|--|----------------|
|  | New items      |
|  | Required items |

Although many entities already present an operating profit or loss subtotal, the existing classification of income and expenses in this category might not be the same across entities

8 [IASB Staff Paper AP1](#), Project: *Primary Financial Statements*, Topic: *Introduction to IFRS 18 Presentation and Disclosure in Financial Statements*, Emerging Economies Group meeting, October 2023. Available on the IFRS Foundation's website.

IFRS 18 requires all entities to classify their income and expenses included in profit or loss for the period into one of five specified categories:

(a) Operating category

(b) Investing category

(c) Financing category

(d) Income taxes category

And

(e) Discontinued operations category

As illustrated above, IFRS 18 requires all entities to classify their income and expenses included in profit or loss for the period into one of five specified categories:

**(a) Investing category**

The investing category will typically include income and expenses arising from:

- Assets that generate a return individually and largely independently of other resources held by an entity, for example:
  - Rental income from, and remeasurements of, investment property
  - Interest income and fair value changes of financial assets
  - Dividends and fair value changes of financial instrument investments
- Investments in associates, joint ventures and unconsolidated subsidiaries accounted for using the equity method
- Cash and cash equivalents

The requirements related to the investing category are discussed in more detail in section 3.2.1 below.

**(b) Financing category**

The financing category will typically include:

- All income and expenses from liabilities arising from transactions that involve only the raising of financing (for example, income and expenses from bank loans)
- Interest income and expense (including the effects of interest rate changes) recognised in profit or loss while applying IFRS accounting standards to other liabilities (for example, interest expenses recognised on a lease liability under IFRS 16 *Leases* or the unwinding of discounting on a long-term provision under IAS 37)

Note that, for the types of liabilities mentioned in the second bullet above, only interest income and expense and the effects of interest rate changes are classified in the financing category; all other changes, such as the re-measurement of a provision, are classified in the operating category.

The requirements for classifying income in the financing category are discussed in more detail in section 3.2.2 below.

**(c) Operating category**

The operating category is a residual category, therefore, it includes all items not required to be classified in one of the other categories. This was deliberately designed to ensure that all income and expenses arising from an entity's main business activities are included in the operating category.

The operating category will typically include all income and expenses:

- Arising from an entity's main business activities
- Not classified in other categories, even if these income and expenses are volatile and unusual

The requirements applicable to this residual category are discussed in more detail in section 3.2.3 below.

**(d) Income taxes category**

The income tax category includes tax expenses and tax income recognised in profit or loss applying IAS 12 *Income Taxes* and any related foreign exchange differences. This category is discussed in section 3.2.4 below.

**(e) Discontinued operations category**

The discontinued operations category is made up of income and expenses from discontinued operations, applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This category is discussed in section 3.2.5 below.



## How we see it

All entities will need to carefully reconsider the structure of their statement of profit or loss, in light of the new categories and subtotals required by IFRS 18. Classifying income and expenses into the relevant profit or loss categories might require the use of judgement. Although many entities already voluntarily present an operating profit or loss subtotal under IAS 1, the classification of income and expenses in this category might not be the same.

Entities also need to consider the broader impact of changing the structure of their statement of profit or loss if, for example, their current subtotals are inputs in determining management incentives, income tax or compliance with covenants.

The requirement to classify all income and expense into one of the five categories above can be difficult for items that might fit into more than one of these categories. Therefore, IFRS 18 provides guidance for classifying some specific types of income and expense.

The most common of these types of income and expense is likely to be foreign exchange differences. The basic principle is that income and expenses from foreign exchange differences are classified in the same category as the income and expense that give rise to them, unless classifying them into those categories will cause undue cost and effort, in which case they must be classified in the operating category. The detailed requirements for classifying foreign exchange differences, as well the gain or loss on the net monetary position in a hyperinflationary economy, are discussed in section 3.2.7 below.

The standard also provides specific guidance for:

- Changes in classification and derecognition (see section 3.2.6 below)
- Hybrid contracts accounted for under IFRS 9 (see section 3.2.2.D below)
- And
- Gains and losses on derivatives and designated hedging instruments (see section 3.2.8 below)

### 3.1.2 Requirements for specific entities

The Board identified that if certain entities applied the general requirements outlined above, they would classify income and expenses from their main business activities in categories other than the operating category.

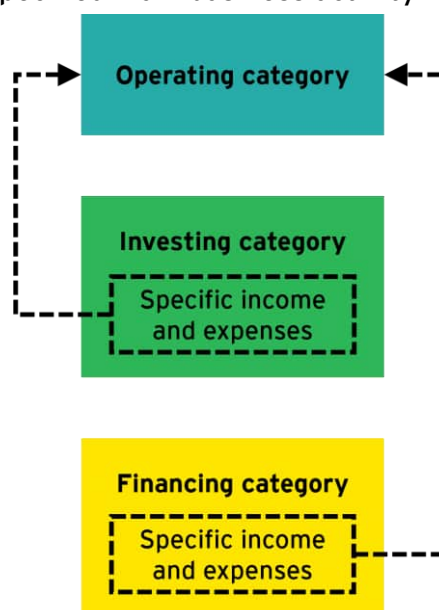
Therefore, the standard introduces the concept of two 'specified main business activities' being:

- Investing in particular types of assets (e.g., investment property companies)
- And
- Providing financing to customers (e.g., banks and other lending institutions)

As an exception to the general requirements, the standard requires entities with a 'specified main business activity' to classify *some* of their income and expenses in the operating category that would otherwise have been included in investing or financing.

As an exception to the general requirements, the standard requires entities with a 'specified main business activity' to classify *some* of their income and expenses in the operating category that would otherwise have been included in investing or financing

This exception to the general requirements is depicted in the following figure:  
**Figure 3-2: Classification of income and expenses by entities with a specified main business activity**



It is important to stress that these specific requirements only apply to particular income and expenses related to these specified main business activities. Therefore, even entities with specified main business activities will be required to apply the general requirements (which are discussed in section 3.2 below) when classifying the rest of their income and expenses.

An entity could have several main business activities, but in order to determine the appropriate set of classification requirements to apply under IFRS 18, an entity is only required to assess whether it has one (or both) of the two 'specified main business activities' mentioned above. Whether an entity has one, or both, of the specified main business activities is a matter of fact, rather than merely an assertion and may require judgement, based on evidence.



### How we see it

The use of 'main' is an important part of the concept of 'specified main business activity'; it is not intended to include minor or ancillary activities. IFRS 18 only provides two examples of evidence indicating an entity has a specified main business activity (see section 3.3.1.B below), both of which indicate that it is a reasonably high hurdle to conclude that a particular business activity is a specified 'main' business activity.

IFRS 18 also includes certain exclusions to the financing category that applies to issuers of:

- Insurance contracts in the scope of IFRS 17 *Insurance Contracts*  
And/or
- Investment contracts with participation features in the scope of IFRS 9

Entities with a specified main business activity are discussed in more detail in section 3.3.1 below, the requirements for such entities are discussed in sections 3.3.2 to 3.3.4 below, and the guidance for entities that issue insurance contracts and investment contracts with participation features in the scope of IFRS 9 is discussed in section 3.3.5 and section 3.3.6, respectively, below.

In addition, there are detailed requirements for hybrid contracts held by entities with a main business activity of providing financing to customers. These are discussed in section 3.3.3.H below.

### 3.1.3 Items to be presented in the statement of profit or loss

Like IAS 1, IFRS 18 specifies line items to be presented in the statement of profit or loss, though those line items are no longer described as 'minimum' line items. In addition, IFRS 18 provides guidance to determine when additional line items are required and situations in which the specified line items may not be required.

IFRS 18 also introduces new requirements relating to the presentation of expenses classified in the operating category. Operating expenses are still presented either by "function" or by "nature", but additional disclosure requirements have been added for entities choosing to present these items by function. These new requirements are discussed in section 3.4 below.

## 3.2 General requirements for classification

This section discusses the general requirements for the classification of income and expenses included in the statement of profit or loss, applicable to all entities applying IFRS 18.

Entities with a specified main business activity (see section 3.3.1 below) should also refer to section 3.3 below for the specific requirements applicable to *some* of their income and expenses. There are also specific requirements for entities that issue: 1) insurance contracts and 2) investment contracts with participation features in the scope of IFRS 9, as discussed in sections 3.3.5 and 3.3.6, respectively, below.

### 3.2.1 Investing category

Many users analyse returns from an entity's investments separately from its operations. Thus, the introduction of an investing category enables those users to identify returns from investments which are not part of the entity's main business activities. [IFRS 18.BC105]. For example, investments in debt or equity instruments normally generate returns which are specific to that investment, i.e., an individual return, which is largely independent of the entity's other resources. [IFRS 18.B46].

In the Basis for Conclusions on IFRS 18, the IASB notes that the investing category relates to assets and the financing category generally relates to liabilities. [IFRS 18.BC135]. However, many assets generate income and expenses as part of an entity's operations and, therefore, IFRS 18 requires that only specified income and expenses from *certain* assets are included in the investing category. [IFRS 18.BC103, IFRS 18.BC106]. Income and expenses arising from any other assets falling outside the scope of these requirements is classified in the operating category as the default category (with some limited exceptions<sup>9</sup>). [IFRS 18.BC89].

In addition, IFRS 18 includes specific requirements for entities that invest in *certain* assets as a main business activity (see section 3.3.2 below) which require the income and expense from particular assets to be classified in the operating category. These requirements were added to ensure that

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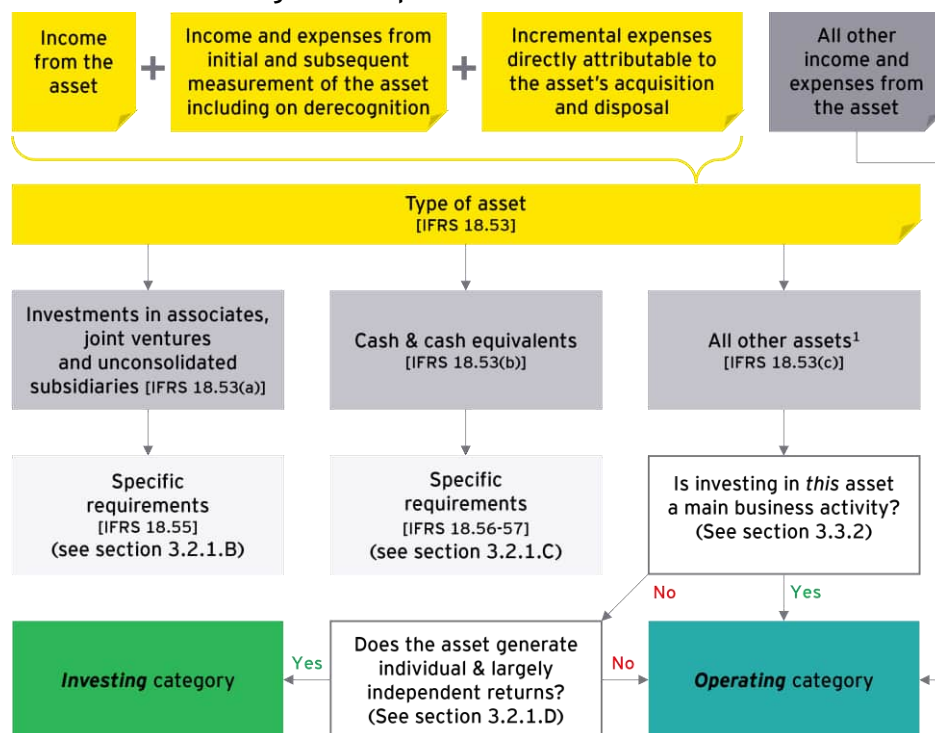
9 There are specific requirements for the following types of assets which could result in the related income and expenses on these assets being included in the financing category:

- (a) Derivatives and designated hedging instruments - see section 3.2.8 below
- (b) Defined benefit plan assets - see section 3.2.2.B below

entities can present key measures of their operating performance within the operating category. [IFRS 18.BC90, IFRS 18.BC94(a), IFRS 18.BC104].

The following diagram sets out how an entity can navigate the investing category requirements, which are discussed in more detail in the rest of this section.

**Figure 3-3: Classifying income and expenses from assets recognised in profit and loss**



- 1 There are specific requirements for:
- (a) Derivatives and designated hedging instruments - see section 3.2.8 below
  - (b) Defined benefit plan assets - see section 3.2.2.B below
- Thereby excluding these from the scope of residual category in IFRS 18.53(c)

### 3.2.1.A Specified income and expenses

The investing category will include specified income and expenses from the following investments: [IFRS 18.53, IFRS 18.BC103]

**Extract from IFRS 18**

**53** Except as required by paragraphs 55-58 for an entity that has a specified main business activity, an entity shall classify in the investing category income and expenses specified in paragraph 54 from:

- (a) investments in associates, joint ventures and unconsolidated subsidiaries (see paragraphs B43-B44);
- (b) cash and cash equivalents; and
- (c) other assets if they generate a return individually and largely independently of the entity's other resources (see paragraphs B45-B49).

The specified income and expenses arising from the investments listed above, which are required to be classified as investing, are as follows:

[IFRS 18.54, IFRS 18.BC106]

- (1) Income generated by those assets, e.g., interest revenue from debt investments, dividend income from equity instruments and rental income from investment properties.
- (2) Income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets e.g., impairment losses and reversals and remeasurements of investment properties.
- (3) Incremental expenses directly attributable to the acquisition and disposal of the assets, e.g., transaction costs and costs to sell the assets - see section 3.2.1.F below.

It is worth noting that income and expenses other than those listed above arising from these assets are required to be included in the operating category. IFRS 18.53 is clear that only the 'specified' income and expenses listed in IFRS 18.54 are to be classified in the investing category.

### Frequently asked questions

#### Question 3-1: How are expenses related to holding investment property classified in profit or loss?

As noted above, the standard only requires specific expenses occurring in defined circumstances to be classified in the investing category.

[IFRS 18.54(b) - IFRS 18.54(c)]. Therefore, other expenses that arise from holding the investment - for example, maintenance expenses or rates and taxes levied on an investment property - will be classified in the operating category since this type of expenditure does not fall within the categories of expenditure required to be classified in the investing category.

### 3.2.1.B Investments in associates, joint ventures and unconsolidated subsidiaries

#### I Equity method investees

All entities, irrespective of whether they invest in equity accounted investments as a main business activity or not, are required to classify their share of profit or loss and other income and expenses (e.g., an impairment loss) arising from an *equity accounted* investment in associates, joint ventures or unconsolidated subsidiaries in the investing category.

[IFRS 18.53(a), IFRS 18.55(a), IFRS 18.BC110].

This requirement reflects the fact that, for both an entity that invests in such assets as a main business activity and one that does not, the entity does not control the activities of its associates and joint ventures. Many users analyse equity method accounted income and expenses separately, therefore, classifying them in the operating category would disrupt analyses of both operating margin and the investments themselves. The intention is to provide a consistent starting point for analyses of such income and expenses by classifying all such income and expenses in the investing category, which better aligns with how users are known to approach those analyses, according to the Board. [IFRS 18.BC111, IFRS 18.BC114, IFRS 18.BC115, IFRS 18.BC121].

The Board noted that this approach reflects the fact that returns of equity accounted investments are not closely related to an entity's main business activities and are instead generated individually and largely independently of its other resources. This is consistent with the principle for classification in the investing category and simplifies the structure of the statement of profit or loss. [IFRS 18.BC119].

All entities are required to classify their share of profit or loss and other income and expenses arising from an equity accounted investees in the investing category

As the standard does not specify the location of the equity accounted investments line item within the investing category, it will be possible for entities to present this as the first line after operating profit subtotal and insert an additional subtotal for operating profit and income and expenses from equity accounted investments.

An entity might decide to disaggregate its income and expenses from equity accounted investments into more than one line item within the investing category, based on investments with similar or dissimilar characteristics (see section 2.2.2 above). If an entity followed this route, it might present an additional subtotal for operating profit and income and expenses of only some equity accounted investments (see Question 3-2 below).

[IFRS 18.BC120].



### How we see it

The requirement to classify income and expenses from equity accounted investments in the investing category will represent a change for those entities who currently classify income and expenses from such investments above operating profit. However, such entities will be able to present an additional subtotal (within the investing category) for operating profit and income and expenses from investments from equity accounted investments, if such a presentation contributes to providing a useful structured summary of the performance of the entity.

### Frequently asked questions

**Question 3-2: Can an entity present an additional subtotal for the income of only some equity accounted investments within the investing category?**

See the response to Question 3-40 in section 3.3.5.A below.

**Question 3-3: Can an entity present gains or losses on disposal of an equity accounted investment in the same line item as the share of profit or loss from an equity accounted investment?**

Some IFRS accounting standards, including IFRS 18, specify certain line items to be presented separately in the statement of profit or loss. Share of the profit or loss of associates and joint ventures accounted for using the equity method is such a specified line item (see section 3.4 below). However, the standard is clear that these specified line items are not required if they are not necessary to provide a useful structured summary.

An entity will need to apply judgement in determining the level of aggregation that is appropriate, based on a consideration of its specific facts and circumstances, including a consideration of the characteristics of the gain or loss on disposal. Characteristics such as persistence, function or size could be relevant in this regard. An example of the aggregation of the two line items is shown in the first illustrative example of a statement of profit or loss included in IFRS 18. [IFRS 18.IE7].



### How we see it

We believe that, depending on the assessment of facts and circumstances, aggregation can be acceptable, provided that it contributes to a useful structured summary. Equally, it is acceptable to present these as separate line items if this results in a more useful structured summary, as illustrated in Figure 3-1 in section 3.1.1 above.

## II Unconsolidated subsidiaries

In their separate financial statements, some parent entities account for their investments in subsidiaries using the equity method, as permitted by IAS 27 *Separate Financial Statements*. As explained above, such entities are also required to classify income and expenses from those *equity accounted* investments in the investing category. This approach is consistent with the Board's approach for equity accounted investments relating to associates and joint ventures, and reflects the fact that users typically analyse such investments separately. [IFRS 18.BC129].

## III Investments in associates, joint ventures and unconsolidated subsidiaries *not* accounted for applying the equity method

Income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries that are not accounted for using the equity method are also classified in the investing category, unless an entity has a main business activity of investing in such assets, as discussed in section 3.3.2.A below. [IFRS 18.53(a)].

### 3.2.1.C Cash and cash equivalents

To make the structure of the statement of profit or loss easier to understand, and because some stakeholders noted that cash and cash equivalents are assets which generate returns individually and largely independently of an entity's other resources, the IASB decided to require that income and expenses from cash and cash equivalents are classified in the investing category. [IFRS 18.53(b), IFRS 18.BC134, IFRS 18.BC135].

There are limited exceptions to this requirement for entities with a main business activity of investing in financial assets or providing financing to customers and these are discussed in section 3.3.4 below.

Rather than defining a new term, the requirements in IFRS 18 rely on the definition of cash and cash equivalents in IAS 7. [IFRS 18.BC133].

The requirement above means that for entities that do not have a main business activity of investing in financial assets or providing financing to customers, there is no correlation between the purpose for which the cash is held or the manner of receipt and the classification within profit or loss.

### Frequently asked questions

#### Question 3-4: How is the income from money market funds classified in profit or loss?

Some entities invest in money market-type funds to earn low-risk returns while preserving the value of the assets and maintaining a high level of liquidity. The nature of these investments must be assessed to determine how these returns are classified in the statement of profit or loss applying IFRS 18.

Classification depends on whether the money market investments are cash equivalents as defined in IAS 7 (see International GAAP® 2026, Chapter 36, section 3.2.2) since the requirements in IFRS 18 rely on the definition as set out in that standard. [IFRS 18.BC133].

If a money market investment meets the definition of a cash equivalent, the specific classification requirements for cash and cash equivalents, discussed above, apply to the returns from that asset. [IFRS 18.53(b)]. However, if it does not meet that definition, the general requirements for other assets if they generate a return individually and largely independently apply (as discussed in section 3.2.1.E below). [IFRS 18.53(c)].

There are specific requirements for the classification of cash and cash equivalents (see section 3.3.4 below) and other assets (see section 3.3.2 below) if these are held by entities with a specified main business activity.

**Question 3-5: How is interest income on cash and cash equivalents that is received as an advanced payment from a customer classified in profit or loss?**

If an entity receives cash advances from a customer under a revenue contract with a significant financing component, any interest earned on those cash advances is still classified in the investing category. [IFRS 18.53(b), IFRS 18.54(a)]. The entity is not permitted to classify the interest income earned on the cash as part of its operating profit. A different classification could apply to entities with a specified main business activity, see Question 3-37 in section 3.3.4 below.

### 3.2.1.D Other assets that generate a return individually and largely independently

As noted in section 3.2.1 above, the IASB introduced the investing category to enable users to identify returns from investments which are *not* a part of the entity's main business activities. Therefore, in addition to the specific requirements for investments in associates, joint ventures and unconsolidated subsidiaries and cash and cash equivalents, the IASB set out specific requirements in IFRS 18.53(c) for the classification of income and expenses from assets that generate a return '*individually and largely independently*' from an entity's other resources. [IFRS 18.53(c), IFRS 18.BC103, IFRS 18.BC105]. However, neither the terms 'individually' nor 'largely independently' are defined in IFRS accounting standards.

#### I Scope

IFRS 18.53(c) is drafted as a residual requirement, i.e., this paragraph only applies to those assets *not* specifically mentioned in:

- IFRS 18.53(a) - i.e., investments in associates, joint ventures and unconsolidated subsidiaries (see section 3.2.1.B above)
- IFRS 18.53(b) - i.e., cash and cash equivalents (see section 3.2.1.C above)

Or subject to the specific requirements for:

- Derivatives and designated hedging instruments (see section 3.2.8 below)
- And
- Defined benefit plan assets (see section 3.2.2.B below)

For brevity, the rest of this section refers to 'asset' or 'assets' when referring to an 'other asset' that is potentially in scope of IFRS 18.53(c).

#### II Requirements

IFRS 18.53(c) requires an entity to classify in the investing category specified income and expenses from an asset if:

- (a) The entity does **not** invest in that particular asset as a main business activity (see section 3.3.1 below) [IFRS 18.53, IFRS 18.BC104]

And

- (b) The asset generates returns individually and largely independently of the entity's other resources; these returns could be positive or negative. [IFRS 18.B45, IFRS 18.BC103]

Income and expenses which relate to the asset, other than those specified, are classified in the operating category (see section 3.2.1.A above).

Income and expenses arising from any assets that do not meet **both** (a) and (b) above must be included in the operating category. [IFRS 18.BC89].

As a result, if an entity has identified a main business activity of investing in specific assets (see section 3.3.2 below), the approach below can be ignored for those assets as the income and expenses from those assets will be classified in the operating category regardless. [IFRS 18.58].

### III Examples of assets generating such returns

While not defining these terms, the standard provides examples of what is meant by assets which generate a return individually and largely independently of the entity's other resources and the types of income and expense which could arise: [IFRS 18.B46, IFRS 18.B47]

- Debt or equity instruments, generating interest income or dividends
- Investment properties, generating rental income, depreciation, impairment losses and reversals, fair value gains and losses and income and expenses from derecognition or classification and measurement as held for sale
- Receivables for rent generated by those investment properties

### IV Assets that do *not* generate such returns

To further clarify, the standard explains that assets which generate a return 'individually and largely independently' generate returns differently from assets that are used 'in combination' to produce or supply goods or services, and which, therefore, do *not* generate returns individually and largely independently of the entity's other resources. Such assets include but are not limited to: [IFRS 18.B48, IFRS 18.BC142, IFRS 18.BC143]

- (a) Property, plant and equipment, used in combination with other resources to produce goods or supply services, which generate neither individual nor largely independent returns.
- (b) Assets such as receivables, which arise from the production or supply of goods and services and for which the income and expenses are classified in the operating category, which generate returns individually but not largely independently of an entity's other resources.
- (c) Loans to customers when the entity provides financing to customers as a main business activity, which (consistent with (b) above) generate returns individually but not largely independently. This is because the entity's service is providing financing to customers, which is a service it provides using the loan in combination with other resources.

Some assets, such as a disposal group held for sale, might generate returns largely independently of an entity's other resources, but these assets only generate returns as part of a group of assets rather than individually. [IFRS 18.BC142].

Examples are given of the types of income and expenses that could arise from the above assets, and which would be classified in the operating category: [IFRS 18.B49]

- Revenue for goods and services produced or supplied using a combination of assets
- Interest income
- Depreciation and amortisation
- Impairment losses and reversals thereof
- Income and expenses from the derecognition of the asset
- Income and expenses from an asset's classification and measurement as held for sale (see section 3.2.6 below)
- Income and expenses arising on a business combination that includes assets, which will give rise to income and expenses that will be classified in the operating category, such as:
  - Gain on a bargain purchase
  - Remeasurements of contingent consideration

Business combinations represent the underlying assets acquired and liabilities assumed and, thus, the returns from a business combination (for example, the gain on a bargain purchase) are not individual or largely independent of the entity's other resources. [IFRS 18.BC144].

## V The need for judgement

The assessment is not only about whether an asset is capable of generating individual and largely independent returns (i.e., the asset's nature); other factors also need to be considered. For example, the same office building could be:

- Leased out to a third party, thereby generating individual and largely independent returns (i.e., rental income on an investment property) [IFRS 18.B46(b)]  
Or
- Used as the entity's head office, in combination with other resources to supply services, therefore, generating neither individual nor largely independent returns [IFRS 18.B48(a), IFRS 18.BC142(a)]

Similarly, the examples in the standard and the related rationale in the Basis for Conclusions on IFRS 18 indicate that a receivable can:

- Generate both individual and largely independent returns, if that receivable arises from leasing out investment property [IFRS 18.B46(b)]  
And
- Generate returns 'individually' but not 'largely independently', if that receivable arises from the production of goods or supply of services for which the income and expenses are classified in the operating category [IFRS 18.B48(b), IFRS 18.BC142(b)]



### How we see it

In our view, an entity must apply judgement in assessing whether an asset generates individual and largely independent returns and might take account of several factors including:

- The nature of the asset (i.e., whether it is capable of generating returns separately)
- The asset's use or integration with other assets and resources (i.e., whether it generates returns separately in the context of the entity's business)
- The origin of the asset (i.e., whether it arose from the production or supply of goods or services for which the income and expenses are classified in the operating category)  
And
- The entity's business model (i.e., how the entity generates returns by using assets and resources in combination to produce or supply goods or services)

The above factors are not exhaustive and may need to be considered together, rather than individually, when making a judgement.

Entities are advised to monitor practice on this matter as it develops.

## VI Illustration of the assessment



### Illustration 3-1: Assessing whether an asset generates individual and largely independent returns

Entity C, a construction company without a main business activity of investing in assets (see section 3.3.2 below), constructs and sells office complexes in the ordinary course of business.

Entity C is considering the classification of the income and expenses from the following assets held at year end:

- (1) A receivable from the sale of a completed office complex
- (2) A brick making machine
- (3) An investment property (i.e., held for capital appreciation and rental to others) measured at fair value applying IAS 40 *Investment Property* but still under construction by the entity itself
- (4) A disposal group held for sale under IFRS 5

#### 1 Receivable

Since the receivable from the sale of property inventory arises from the “production or supply of goods [...] for which the income and expenses are classified in the operating category” (i.e., it arises from the entity’s revenue generating activities), the receivable does not generate returns individually and largely independently from the entity’s other resources. [IFRS 18.B48(b), IFRS 18.BC142(b)]. Therefore, the receivable is not in scope of IFRS 18.53(c), and all the income and expenses from this asset is classified in the operating category.

#### 2 Brick making machine

The brick making machine is used ‘in combination’ with other resources to produce goods or supply services. Therefore, it does not generate returns individually and largely independently from the entity’s other resources. [IFRS 18.B48(a), IFRS 18.BC142(a)].

As a result, the machine is not in scope of IFRS 18.53(c) and all the income and expenses from this asset must be classified in the operating category.

#### 3 Investment property under construction

Despite still being under construction, the investment property generates separate returns in the form of capital appreciation which is recognised in profit or loss applying IAS 40. [IAS 40.8(e), IAS 40.53]. And while Entity C’s own assets are used to construct the investment property, the property itself is not used in combination with other resources to produce goods or supply services. Although Entity C’s main business activity is construction, since the asset being constructed is an investment property rather than the usual property inventory, the investment property does not “arise from the production [...] of goods [...] for which the income and expenses are classified in the operating category” - i.e., this incidental construction of an investment property is not part of Entity C’s business model. [IFRS 18.B48(b), IFRS 18.BC142(b)].

Therefore, the investment property under construction generates returns individually and largely independently from the entity’s other resources. As a result, the property is in the scope of IFRS 18.53(c) and the specified income and expenses (see section 3.2.1.A above) from this asset is classified in the investing category. There are specific requirements for entities that invest in investment property as a main business activity, as discussed in section 3.3.2 below.

#### 4 Disposal group held for sale

An IFRS 5 disposal group is, by definition, a group of assets (sold “together as a group in a single transaction”). [IFRS 5 Appendix A]. Therefore, it is likely that the assets making up the disposal group are ‘used in combination’ with each other (or with other resources) to produce goods or supply services. Therefore, the individual assets making up the disposal group would not generate individual and largely independent returns. [IFRS 18.BC142].

There are specific requirements for the classification of income and expense from groups of assets that are derecognised or classified as held for sale, as discussed in section 3.2.6.C below.

### 3.2.1.E Application of the requirements to some common assets

The frequently asked questions below apply the requirements discussed in section 3.2.1.D above, to a few common examples of assets that are potentially in the scope of IFRS 18.53(c).

#### Frequently asked questions

##### **Question 3-6: How is rental income from property, plant and equipment held on an operating lease classified in profit or loss by a lessor?**

Applying IFRS 16, a lessor might classify a lease of property, plant and equipment as an operating lease and recognise rental income from that lease in profit or loss. In classifying such lease income, an entity has to consider whether the item of property, plant and equipment generates returns individually and largely independently of the entity's other resources. [IFRS 18.B45].

For example, Entity L, a manufacturer without a main business activity of investing in assets (see section 3.3.2 below), is leasing out a machine previously used in its own operations (but now no longer needed) to a third-party lessee. Given the term of the lease relative to the remaining economic useful life of the machine, the lease is classified as an operating lease under IFRS 16 resulting in operating lease income being recognised in Entity L's statement of profit or loss.

While IFRS 18.B48 lists property, plant and equipment as an example of an asset used in combination to produce or supply goods or services and which, therefore, does not generate individual and largely independent returns, this is based on the assumption that the property, plant and equipment is used with other resources in an entity's own operations, rather than being leased out to a third party. [IFRS 18.B48]. Despite the example in IFRS 18.B48, it is also possible that a lessor might lease out an individual item and not use it in its own operations. In that situation, such as in the example above, the asset could give rise to returns individually and largely independently. Since the operating lease income represents income generated by the asset, this income will be classified in the investing category in such circumstances. [IFRS 18.53(c), IFRS 18.54(a)].

A different classification could apply to entities with a specified main business activity of investing in such assets, see Question 3-25 in section 3.3.2.C below.

##### **Question 3-7: How is income from renting out property plant and equipment for part of the year classified in profit or loss?**

It is common practice in some industries to have set periods of down time each year (e.g., construction companies often cease activities during the summer break) resulting in plant and equipment being idle for extended periods. Some entities lease out part of their plant and equipment during these down times to earn short-term lease income. This raises the question of how such short-term lease income is classified in the statement of profit or loss.

Assume Entity C a construction company, without a main business activity of investing in assets (see section 3.3.2 below) or providing financing to customers (see section 3.3.3 below), uses excavators in its revenue generating activities of construction. During the annual summer break, all construction activities are suspended for two months. In the current year, Entity C leased out one of its excavators, under an IFRS 16 operating lease, to a third party for these two months to earn extra income.

In this example, the short-term lease income might be generated individually and largely independently of the entity's other resources. However, the unit of account for classification under IFRS 18 is the asset generating the returns rather than the returns themselves. [IFRS 18.B45].

Therefore, since the majority of the returns from the excavator are generated by the entity using these excavators 'in combination' with other assets in its revenue generating activities of construction, the asset does not generate returns individually and largely independently from the entity's other resources.

As a result, all the income and expenses from this asset must be classified in the operating category even if some of the returns are generated individually and largely independently of the entity's other resources.

**Question 3-8: How is finance income on the net investment in a finance lease classified in profit or loss?**

A lessor with an asset held under an IFRS 16 finance lease recognises finance income on the net investment in the lease in profit or loss.

For example, Entity R, a retailer without a main business activity of investing in assets (see section 3.3.2 below) or providing financing to customers (see section 3.3.3 below), leases out a warehouse previously used in its own operations to a third-party lessee. Given the term of the lease, relative to the remaining economic useful life of the warehouse, it is classified as a finance lease under IFRS 16. This results in the derecognition of the warehouse at commencement of the lease and the recognition of the net investment in the lease (being a new unit of account for classification purposes) applying IFRS 16. (See Question 3-19 in section 3.2.6.A for the classification of the disposal gain or loss).

A net investment asset typically does not: [IFRS 18.B48]

- (a) Generate returns by being used in combination to produce goods or supply services, as the returns from an IFRS 16 finance lease stem from transferring the right to use the underlying asset to a third party
- Nor
- (b) Arise from the "production or supply of goods or services for which the income and expenses are classified in the operating category"

Therefore, in many cases a net investment asset will meet the criterion of generating a return individually and largely independently of the entity's other resources. Since the finance income represents income that arises from the subsequent measurement of the net investment in the lease, the finance income is classified in the investing category. [IFRS 18.53(c), IFRS 18.54(b)].

However, given the need for judgement and considering various factors including the origin of an asset (as discussed in section 3.2.1.D above), a different classification could apply in certain cases.

For example, Entity S, a retailer without a main business activity of investing in assets (see section 3.3.2 below), sells and installs industrial equipment. Although most of its customers prefer to buy the equipment outright, Entity S also provides financing in the form of IFRS 16 finance leases as part of its revenue-generating activities. However, providing financing is not a main business activity for Entity S.

Since providing financing to customers via finance leases is part of Entity S' revenue-generating activities, the net investment in the finance lease could also be seen as arising "from the [...] supply of [...] services for which the income and expenses are classified in the operating category" as contemplated in IFRS 18.B48(b). [IFRS 18.B48(b), IFRS 18.BC142(b)]. Therefore, in this scenario, it may be appropriate to conclude that the net investment in the finance lease does not generate returns largely independently of the entity's other resources since it arises from the service of providing financing which Entity S does in combination with other resources. [IFRS 18.BC143]. As a result, in a case like this, an entity might consider that the income from the net investment asset is classified in the operating category. [IFRS 18.B49(b)].

### 3.2.1.F Classification of incremental acquisition and disposal expenses

Incremental expenses directly attributable to the acquisition and disposal of investments (specified in IFRS 18.53 - see section 3.2.1 above) are required to be classified in the investing category. The aim of this requirement is to achieve a more consistent classification of such costs. [IFRS 18.54(c), IFRS 18.BC106(c)]. Without this requirement, costs such as directly attributable transaction costs, which are recognised as an expense immediately, would have been classified in the operating category under the general requirements of IFRS 18. [IFRS 18.BC107].

Such incremental costs, directly attributable to acquisition and disposal, are typically easily identifiable external costs, therefore, the requirement is expected to lead to consistent classification and, as such, more useful information for users. Note that not *all* expenses relating to the acquisition of investments are classified in the investing category. If they were, this might involve complex and arbitrary allocations of expenses such as employee costs. Similarly, not *all* incremental expenses are classified in the investing category, but only those directly attributable to the acquisition. Thus, ongoing expenses related to the investment, such as investment management fees paid to a third party, are excluded from the investing category and classified in the operating category (see Question 3-1 in section 3.2.1.A above). The Board's chosen approach avoids the more complex allocations of costs across categories. [IFRS 18.BC108, IFRS 18.BC109].



#### How we see it

Currently, there is mixed practice for the classification of incremental expenses related to the acquisition and disposal of investments. The requirement to classify such expenses in the investing category will lead to a change in practice for those entities that currently classify such expenses above the operating profit line.

#### Frequently asked questions

##### Question 3-9: How are transaction costs incurred in acquiring investments in other entities classified in profit or loss?

Entities that acquire investments in subsidiaries, associates, joint ventures or other equity investments typically incur transaction costs relating to these acquisitions.

Transaction costs relating to such acquisitions are either capitalised or expensed, depending on the nature of the transaction. For example, under IFRS 3 *Business Combinations*, transaction costs relating to the acquisition of a subsidiary are expensed in the statement of profit or loss, whereas under IAS 28 *Investments in Associates and Joint Ventures*, transaction costs relating to the acquisition of an associate or joint venture are capitalised as part of the equity accounted cost of that investment rather than being recognised in the statement of profit or loss.

For those expenses recognised in profit or loss, IFRS 18 specifies that incremental expenses directly attributable to the acquisition of assets for which the income is included in the investing category are also classified in the investing category, while the costs to acquire assets which generate income classified in the operating category are also classified in the operating category. [IFRS 18.54(c)].

The following Illustration addresses the classification of such incremental acquisition costs recognised in the statement of profit or loss.



### Illustration 3-2: Classification of incremental acquisition costs

Entity P is a parent company that only prepares consolidated financial statements. It does not have a specified main business activity. In the year ended 31 December 20X0, it acquires:

(a) A subsidiary, which constitutes a business combination accounted for in accordance with IFRS 3, incurring associated transaction costs of CU5m

And

(b) An equity investment, without control, joint control or significant influence, accounted for at fair value through profit or loss in accordance with IFRS 9, incurring transaction costs of CU200,000

Applying IFRS 18, the entity determines that at least some of the assets acquired in the business combination do not generate a return individually and largely independently of the entity's other resources. Consequently, the transaction costs arising from the acquisition of the subsidiary are required to be classified in the operating category. [IFRS 18.B49(f)].

The entity determines that the equity investment acquired generates a return, in the form of dividends, individually and largely independently of the entity's other resources. The entity will, therefore, classify any future dividends received in the investing category and, consequently, also classifies the transaction costs arising from the acquisition of the investment in the investing category. [IFRS 18.54(c), IFRS 18.B46(a), IFRS 18.B47(b)].

A different classification could apply to entities with a specified main business activity, see Question 3-28 in section 3.3.2.C below.

#### 3.2.1.G Additional subtotals within the investing category

There is no requirement to insert a heading for the 'investing category' and the standard permits an entity to present additional subtotals (see section 2.1.1.B above) within that category, if this is necessary to provide a useful structured summary. [IFRS 18.BC120].



#### How we see it

We believe that the ability to present additional subtotals within the investing category, if they are necessary to provide a useful structured summary, will enable many entities to communicate information which reflects the relevance of different investments to their business.

#### 3.2.1.H Profit or loss before financing and income tax subtotal

The 'profit or loss before financing and income tax' subtotal is introduced as a mandatory subtotal by IFRS 18 and comprises operating profit or loss and all income and expenses classified in the investing category. [IFRS 18.71]. There are limited exceptions to this requirement for entities with a main business activity of providing financing to customers as discussed in section 3.3.3.G below. The role of this subtotal is to facilitate an analysis of an entity's performance, independently of how it is financed and to improve comparability between entities. [IFRS 18.BC148].

Note that even if the profit or loss before financing and income tax subtotal is the same as the operating profit subtotal, both must still be presented; the main reason for this is to facilitate digital reporting. [IFRS 18.BC152].

### 3.2.2 Financing category

In order to determine what income and expenses to classify in the financing category, IFRS 18 requires an entity to differentiate between two types of liabilities: [IFRS 18.59]

#### Extract from IFRS 18

59 To determine what income and expenses to classify in the financing category, an entity shall distinguish between:

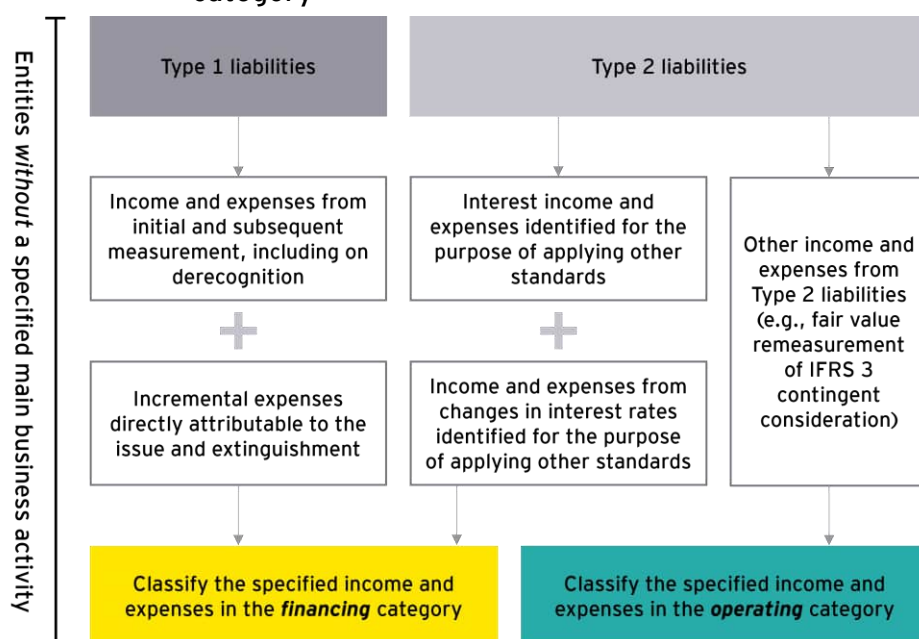
- (a) liabilities that arise from transactions that involve only the raising of finance (see paragraphs B50-B51); and
- (b) liabilities other than those described in (a) - that is, liabilities that arise from transactions that do not involve only the raising of finance (see paragraph B53).

To distinguish between the two types, we have labelled them and will use these labels throughout this publication:

- 1) **Type 1:** Liabilities that arise from transactions that involve only the raising of finance (see section 3.2.2.A below)
- And
- 2) **Type 2:** All other liabilities (i.e., liabilities other than those in 1) above see section 3.2.2.B below)

The following diagram summarises the requirements for Type 1 and Type 2 liabilities: [IFRS 18.60, IFRS 18.61]

**Figure 3-4: Classification of income and expense in the financing category**



There are specific requirements relating to income and expenses from hybrid contracts, accounted for under IFRS 9, containing a host that is a liability, [IFRS 18.62], and gains on losses on derivatives and designated hedging instruments, [IFRS 18.63], which are dealt with in section 3.2.2.D and section 3.2.8 respectively below.

### 3.2.2.A Type 1 liabilities

IFRS 18 describes liabilities that arise from transactions that involve only the raising of finance (i.e., Type 1 liabilities), as follows: [IFRS 18.B50]

#### Extract from IFRS 18

|     |   |
|-----|---|
| B50 | Paragraph 59(a) requires an entity to identify liabilities that arise from transactions that involve only the raising of finance. In such transactions, an entity: <ul style="list-style-type: none"><li>(a) receives finance in the form of cash, or an extinguishment of a financial liability, or receipt of the entity's own equity instruments; and</li><li>(b) at a later date, will return in exchange cash or its own equity instruments.</li></ul> |
|-----|---|

The standard also provides a non-exhaustive list of examples of Type 1 liabilities: [IFRS 18.B51]

- A debt instrument that will be settled in cash, such as debentures, loans, notes, corporate bonds and mortgages
- A liability under a supplier finance arrangement when the payable is derecognised
- A bond settled through delivery of the entity's own shares
- An obligation for an entity to purchase its own equity instruments

Income and expenses arising from the initial recognition and subsequent measurement, including derecognition, of Type 1 liabilities are required to be classified in the financing category. For example: [IFRS 18.B52]

- Interest expense on a debt instrument issued
- Fair value gains and losses on a liability designated at fair value through profit or loss
- Dividends on issued shares classified as liabilities
- Remeasurements recognised on the extinguishment of a debt instrument

Incremental expenses *directly* attributable to the issue and extinguishment of such liabilities, for example transaction costs, are also required to be classified in the financing category. [IFRS 18.60(b), IFRS 18.BC161]. This will provide consistency in classification; without this requirement, transaction costs on a financial liability at amortised cost would have been capitalised and subsequently amortised to the financing category. Conversely, transaction costs on liabilities at fair value through profit or loss would have been expensed immediately and classified in the operating category, as they are not part of the initial measurement of the liability, nor are they an interest expense and, therefore, would not qualify for classification in the financing category. [IFRS 18.BC162]. This approach is in line with the approach to classifying similar expenses from assets in the investing category and, as these costs are typically external, they are expected to be readily identifiable. [IFRS 18.BC163].

## Frequently asked questions

### Question 3-10: Do Type 1 liabilities acquired in a business combination retain their classification in the consolidated accounts of the acquirer?

As noted above, IFRS 18 explains that a Type 1 liability involves only the receiving of finance in the form of cash, extinguishing a financial liability, or the entity's own equity instruments. [IFRS 18.B50]. The question arises as to whether a pre-existing Type 1 liability acquired in a business combination retains its classification as a Type 1 liability in the consolidated accounts of the acquirer.



### How we see it

In our view, the fact that a liability, appropriately classified as a Type 1 liability by the acquiree, is transferred to the acquirer as part of a business combination does not change the nature and thus the classification of that liability. Therefore, a pre-existing Type 1 liability acquired in a business combination continues to be classified as a Type 1 liability in the consolidated accounts of the acquirer.

## 3.2.2.B Type 2 liabilities

### Definition of Type 2 liabilities

Type 2 liabilities are, by definition, all liabilities that are *not* Type 1 liabilities. In other words, Type 2 liabilities do *not* result from transactions in which an entity only: [IFRS 18.59(b), IFRS 18.B50, IFRS 18.BC159]

- Receives:
  - Financing in the form of cash, or the extinguishment of a financial liability
  - Or
  - The entity's own equity instruments
- And
- Will, in exchange, need to return at a later date:
  - Cash
  - Or
  - The entity's own equity instruments

The standard provides the following examples of Type 2 liabilities along with an explanation of why each is not a Type 1 liability: [IFRS 18.B53, IFRS 18.BC159(b)]

- Payables for goods and services with extended payment terms  
(The entity receives goods or services, not only financing)
- Contract liabilities  
(The entity will return goods and services, not cash or its own equity instruments at a later date)
- Lease liabilities  
(The entity receives a right-of-use asset, not only financing)
- Defined benefit liabilities  
(The entity receives employee services, not financing)
- Decommissioning provisions  
(The entity receives an asset, not financing)
- Provisions for litigation  
(The entity does not receive financing)

The above list is not exhaustive and other types of liabilities, for example, liabilities arising from non-traditional financing arrangements may also fall

into this group. Examples of such arrangements could include commodity loans and certain cryptocurrency loans, as these arrangements could qualify as Type 2 liabilities if they involve the receipt of assets rather than just the raising of finance.

### Classification of income and expenses from Type 2 liabilities

The classification requirements for Type 2 liabilities reflect the Board's broader approach to classification as some users consider certain types of income and expenses on other specified liabilities to be similar in nature to income and expenses from financing activities. [IFRS 18.BC154, IFRS 18.BC155].

For Type 2 liabilities, interest income and expenses, including any income and expenses arising from changes in interest rates, recognised in profit or loss, will be classified in the financing category if they arise as a result of applying other requirements in IFRS accounting standards. [IFRS 18.61, IFRS 18.BC164]. The latter part of this requirement is important, as not all IFRS accounting standards require an entity to disaggregate income and expenses arising from changes in the carrying amount into separate amounts for interest income and expenses and other types of income and expenses. An example of this is the changes in the fair value arising from a share-based payment transaction accounted for under IFRS 2 *Share-based Payments*. Under that standard, there is no requirement to identify an interest element separately from the other fair value movements. Consequently, the interest element inherent in the fair value movement is not split out and classified within the financing category; rather, the whole fair value movement is classified within the operating category under IFRS 18 (see Question 3-12 in section 3.2.2.E below). [IFRS 18.BC167, IFRS 18.BC168].

The standard provides the following examples of the types of interest income and expenses, including from changes in interest rates, on Type 2 liabilities that will be classified in the financing category: [IFRS 18.B54]

- Interest expenses on trade payables recognised under IFRS 9
- Interest expenses recognised on contract liabilities with a significant financing component under IFRS 15 *Revenue from Contracts with Customers*
- Interest expenses on lease liabilities recognised under IFRS 16
- Net interest expense on a net defined benefit liability recognised under IAS 19 *Employee Benefits*
- Net interest income on a net defined benefit asset recognised under IAS 19
- Unwinding of a discount on a provision recognised under IAS 37

Taking a long-term provision, recognised under IAS 37, as an example, an entity could recognise three types of changes to the provision: [IFRS 18.BC165]

- 1) Periodic unwinding of the discount
- 2) Effects of changes in the discount rate
- 3) Effects of changes in the best estimate of the expenditure required to settle the liability

Only the first two would be classified in the financing category, because they are financing in nature, while the third would need to be classified in the operating category. [IFRS 18.BC166].



### How we see it

Under IAS 1, practice is somewhat mixed with respect to presentation of the different types of changes in provisions. Thus, the requirements of IFRS 18 will assist comparability between entities.

The standard also outlines income and expenses that are not *interest* income or expenses arising as a result of applying IFRS accounting standards and that will therefore be classified in the operating category, for example:

[IFRS 18.B55]

- Expenses recognised for the consumption of purchased goods or services
- Current and past service costs from an IAS 19 defined benefit plan
- And
- Fair value remeasurements of a contingent consideration liability recognised applying IFRS 3

The classification of any income or expense on the derecognition of a Type 2 liability is subject to the same requirements - see section 3.2.6.B below.

### 3.2.2.C Classification of loan commitment fees

Fees could be paid by a borrower to obtain a term loan, a line of credit, or a revolving debt arrangement and these fees are either included in the effective interest rate of the resulting loan or expensed over the commitment period depending on whether:

- It is probable (more likely than not) at inception that the loan commitment will be utilised in whole or in part
- And
- Once utilised, the loan commitment expires (that is, if the loan is repaid no further amount can be drawn)

Under the IFRS 18 model, the classification of loan commitment fees paid, in the statement of profit or loss of the borrower, needs to reflect the underlying accounting, i.e., the classification will depend on whether a liability is recognised or not.<sup>10</sup> Unless the resulting expense is part of a specified expense that the entity must classify in the financing category, it will be included in the operating category. [IFRS 18.60, IFRS 18.61].

The following Illustration is based on a discussion of commitment fees in a IASB staff paper,<sup>11</sup> while developing the standard, addressing issues for categories in the statement of profit or loss.



#### Illustration 3-3: Classifying loan commitment fees paid by the borrower

An entity enters into a 5-year CU100m credit agreement, repayable in cash, and pays a loan commitment fee of CU1m at inception. Assume Entity B does not have a specified main business activity.

For the purposes of illustration, the credit agreement is one of the following:

1. A fixed term loan, with a set repayment schedule that the entity draws down in full on day one, resulting in the recognition of a liability.
2. A loan commitment for a fixed term loan. At inception it is probable that Entity B will draw down CU60m of the facility, which will result in the recognition of a liability upon the partial draw down, and leave the rest unused.
3. A loan commitment for a fixed term loan. At inception it is **not** probable that Entity B will draw down any portion of the loan.
4. A revolving credit facility (i.e., Entity B can draw down and repay the funds numerous times during the life of the facility).

<sup>10</sup> See International GAAP® 2026, Chapter 46 at section 2.8. [Available on ey.com/IFRS](https://www.ey.com/IFRS).

<sup>11</sup> Appendix A to [IASB Agenda paper 21E](#), *Issues for categories in the statement of profit or loss*, March 2023, available on the IFRS Foundation's website.

The accounting and classification for the items above will be, as follows:

|   | Likelihood of draw down  | Underlying accounting   | Classification in statement of profit or loss |
|---|--|---|---|
| 1 | In full on day 1   | Commitment fee forms part of the IFRS 9 effective interest rate on the resulting liability and is recognised as part of the interest expense over the loan term.    | Financing                                     |
| 2 | Probable that 60% will be drawn down                                 | Commitment fee is apportioned pro-rata to the CU600,000 of the loan likely to be drawn down - and forms part of effective interest rate on the resulting liability. | Financing                                     |
|   |  | Remaining apportionment of the commitment fee is expensed straight line over the commitment period.   | Operating                                     |
| 3 | Not probable that loan will be drawn down                            | Loan commitment fee is expensed straight line over the commitment period.   | Operating                                     |
| 4 | Loan will be drawn and repaid many times (revolving credit facility) | Loan commitment fee is expensed straight line over the commitment period as it does not relate to a specific borrowing.   | Operating                                     |

For the scenarios above where the commitment fee is included in the effective interest rate on the resulting loan under IFRS 9, the commitment fee (or the *pro-rata* portion of the fee) will form part of the interest expense and, therefore, is classified in the financing category since the interest expense on both Type 1 and Type 2 liabilities is classified in financing by an entity without a specified main business activity.

In contrast, where the commitment fee is *not* included in the effective interest rate, the fee (or pro-rata portion of the fee) will be included in the operating category since such a fee represents neither:

- Income and expenses that arise from initial and subsequent measurement, or incremental expenses directly attributable to the issue of a Type 1 liability
- Nor
- The interest income and expense on a Type 2 liability identified while applying another IFRS accounting standard

### 3.2.2.D Hybrid contracts containing a host liability

Some contracts in the scope of IFRS 9 are hybrid contracts containing a liability and an embedded derivative, for example, a bank loan with a prepayment option. [IFRS 18.BC169]. Classification of income and expenses of a hybrid contract with a host liability will depend on whether the embedded derivative is separated from the host contract. [IFRS 18.B56].

#### Host and embedded derivative are separated

If separated, income and expenses arising from the host liability will be classified in accordance with the same requirements as for classifying a similar liability that is not a host in a hybrid contract. In other words, an entity will follow the guidance outlined in section 3.2.2 above, i.e., assess

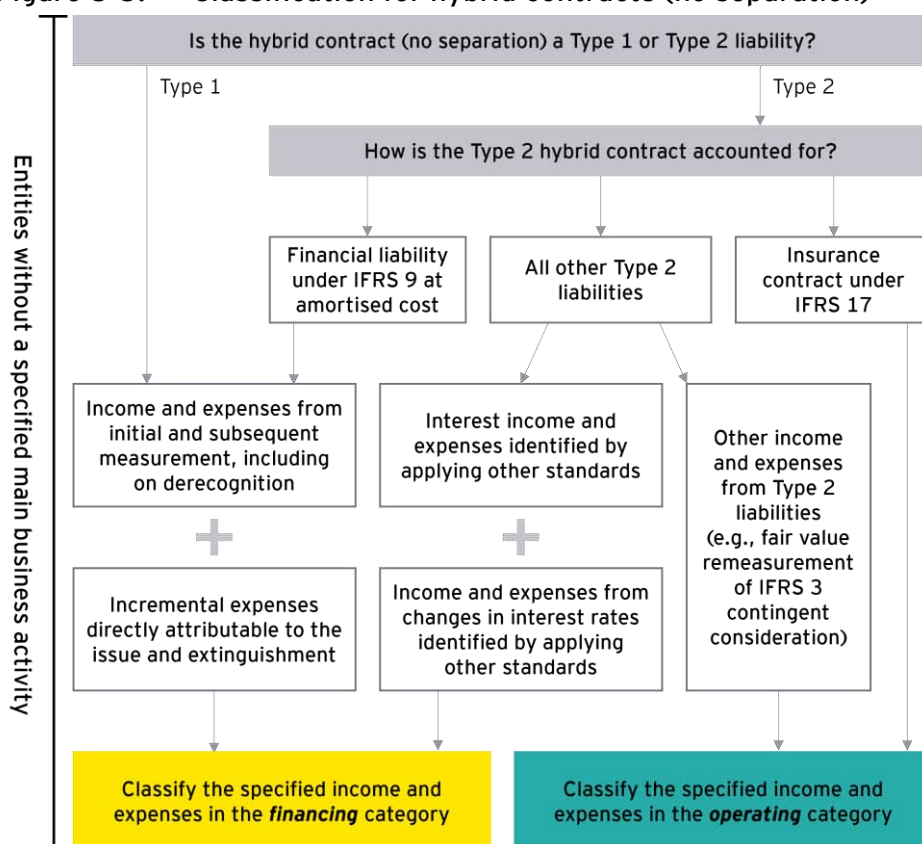
whether it is a Type 1 or Type 2 liability and follow the appropriate guidance. [IFRS 18.B56(a)(i), IFRS 18.BC171(a)]. There are specific requirements for entities with a main business activity of providing financing to customers, as discussed in section 3.3.3.H below.

The separated embedded derivative is classified in accordance with the requirements for similar stand-alone derivatives, which are addressed in section 3.2.8 below. [IFRS 18.B56(a)(ii), IFRS 18.BC171(b)].

### Embedded derivative is *not* separated

In cases where the embedded derivative is not separated, IFRS 9 treats the hybrid instrument as a single unit of account and measures the combined liability in its entirety. [IFRS 18.BC170]. The following figure summarises the requirements for the classification of income and expenses arising from hybrid contracts where the embedded derivative is not separated: [IFRS 18.B56]

**Figure 3-5: Classification for hybrid contracts (no separation)**



For a hybrid contract (no separation) which arises from a transaction that involves only the raising of finance (i.e., a Type 1 liability hybrid), the entity classifies all income and expenses resulting from the liability in the financing category - essentially the hybrid instrument is treated as a Type 1 liability in its entirety, despite the presence of the embedded derivative suggesting that another activity is present. [IFRS 18.B56(b), IFRS 18.BC173(a)].

For a hybrid contract (no separation) which is a Type 2 liability, the following applies: [IFRS 18.BC173-IFRS 18.BC174]

- For a hybrid contract with a host liability in the scope of IFRS 9 and measured at amortised cost, all income and expenses arising from the initial recognition and subsequent measurement (including on derecognition) of such a hybrid contract will be classified in the financing category - essentially the hybrid instrument measured at amortised cost is treated as a Type 1 liability. [IFRS 18.B56(c)(i)].

The IASB felt the cost of separating interest income and expenses from other income and expenses arising from remeasuring such an amortised cost liability would outweigh the benefit. [IFRS 18.BC175-IFRS 18.BC176].

An example of such a Type 2 liability hybrid is a trade payable with extended credit terms and an early prepayment option. This gives rise to interest income and expenses related to the extended credit terms, but also potentially income and expenses from remeasurement, triggered by changes in expectations in future cash flows, as expectations about the use of the prepayment option change. [IFRS 18.BC175].

- For a hybrid insurance contract in the scope of IFRS 17, income and expenses from the hybrid contract, including insurance finance income and expenses will be classified in the operating category. [IFRS 18.B56(c)(ii), IFRS 18.BC179(b)]. Also see section 3.3.5.B below.
  - For all other Type 2 liability hybrid contracts: [IFRS 18.B56(c)(iii)]
    - Interest income and expenses (including from interest rate changes) identified for the purposes of applying other requirements in IFRS accounting standards, will be classified in the financing category.
- While
- All other income and expenses will be classified in the operating category

In summary, all other Type 2 liability hybrids are treated in the same way as any other Type 2 liability. [IFRS 18.BC173(b)].

Note that the means of assessing whether the contract is hybrid is not relevant, so this guidance must be followed for all hybrid contracts in which the embedded derivative is not separated, irrespective of whether that contract failed to meet the requirements of IFRS 9.4.3.3 for separation or whether the whole instrument was designated at fair value through profit or loss, applying IFRS 9.4.3.5. [IFRS 18.B57].

The treatment for hybrid contracts measured at amortised cost is discussed in the first bullet above. However, as noted above, hybrid contracts that arise from transactions combining financing with another activity (i.e., Type 2 liabilities) may also be designated at fair value through profit or loss as an entire contract under IFRS 9.4.3.5. Generally, income and expenses on this type of hybrid contracts are classified in the operating category because the interest expense is not separately recognised from changes in fair value for the purposes of applying other requirements in IFRS accounting standards, i.e., IFRS 9, and therefore, cannot be classified in the financing category. [IFRS 18.BC178].

### 3.2.2.E Classification of income and expense from selected liabilities

#### Frequently asked questions

##### **Question 3-11: How is the interest expense on a contract liability (with a significant financing component) classified in profit or loss?**

An IFRS 15 contract liability is noted as an example of a Type 2 liability in IFRS 18, as it does not involve only the raising of finance, but also relates to the provision of goods or services. [IFRS 18.B53(b)]. If, under an IFRS 15 customer contract, the entity receives a significant benefit of financing the transfer of the good or services, an interest expense may be recognised in profit or loss.

The interest expense recognised on a contract liability with a significant financing component is given as an example of an expense arising from a Type 2 liability that must be classified in the financing category. [IFRS 18.B54(b)].

Refer to Question 3-13 in section 3.2.3 below for a discussion of the classification of interest income on an IFRS 15 contract asset.

**Question 3-12: Is it acceptable to voluntarily disaggregate the 'time value' element from the remeasurement of a Type 2 liability for the purpose of determining the appropriate profit or loss category?**

Some measurements, such as fair value, implicitly include a time value element, but the accounting under the related IFRS accounting standard does not require this to be recognised separately. An example of this is the changes in the fair value arising from a share-based payment transaction accounted for under IFRS 2. This inherently includes a time value of money element, but it is not split out under IFRS 2 accounting - see section 3.2.2.B above. [IFRS 18.BC167].

The standard is clear that only the interest income or expense, including from changes in interest rates, on a Type 2 liability that an entity 'identifies' for the purposes of applying other requirements in IFRS accounting standard is included in the financing category. [IFRS 18.61, IFRS 18.BC168].



### How we see it

We believe that, unless an IFRS accounting standard permits (under an explicit accounting policy), or requires, interest income or expenses to be recognised, it is not acceptable for an entity to disaggregate income and expenses relating to the time value element of the remeasurement of a Type 2 liability in order to classify that element within the financing category rather than the operating category. This is the case even for a liability for which the required measurement under the relevant IFRS accounting standard implicitly includes a time value element.

However, an entity could in certain cases, disaggregate the time value element of the remeasurement of a Type 2 liability that is appropriately classified in the operating category in order to present that element separately within the operating category. See Question C.2-2 in section C.2 below.

### 3.2.3 Operating category

IFRS 18 sets out the operating category as the category that contains all items which are not classified in either the investing, financing, income taxes or discontinued categories. [IFRS 18.52]. In other words, it positions the operating category as a default, or residual category, which ensures that all items from an entity's main business activities will be classified in operating. However, as the residual category, the operating category is not confined to items from the entity's main business activities and will include other items that are not classified within the other four categories. This reflects the Board's view that all income and expenses included in profit or loss, which do not relate to another category, arise from an entity's operations. Thus, an entity's operations are not limited to its main business activities, but also include its supporting activities, which could give rise to income and expenses, though those activities do not generate revenue directly. [IFRS 18.BC89].

This concept extends to volatile, unusual or non-recurring items, and thus such items are included in the operating category. There is acknowledgement that the inclusion of such items might not have predictive value, but the latter is not a characteristic which determines classification. An entity's operations may well be volatile and, therefore, volatile items of income and expense must be included in operating. Moreover, to achieve a faithful representation of the entity's operations for a given period, it is necessary to include such

expenses. For example, impairment expenses as well as depreciation expenses relating to an item of equipment are classified in operating to give a complete picture of the results from the operations for the period. Omitting either of those expenses would not depict the operating decisions to buy and deploy the equipment, nor how those decisions had given rise to income and expenses. [IFRS 18.BC89].

This approach was intended to work for different business models, while still providing a complete picture of the entity's operations. By applying the residual approach, the operating category will include all income and expenses from an entity's main business activities. The only exception relates to entities which consider their equity accounted investments to be a main business activity. In that case, any income or loss from investments accounted for using the equity method will be included in the investing category as discussed in section 3.2.1.B above despite management considering these to be part of the entity's main business activities. [IFRS 18.B42].



### How we see it

We believe that the use of the operating category as the 'default' category, thereby ensuring that all income and expenses from an entity's main business activities, whether volatile or not, are presented in the same category, will facilitate comparability between entities.

The standard clarifies that income and expenses that are classified in the income taxes or discontinued operations categories are not subject to the requirements for classifying items in the operating, investing or financing categories. [IFRS 18.B29].

### Frequently asked questions

#### Question 3-13: Where is interest income on a contract asset (with a significant financing component) classified in profit or loss?

A contract with a customer under IFRS 15 may result in the recognition of a contract asset and related interest income, if the contract terms provide the customer with a significant benefit of financing the transfer of goods or services. Similar to a receivable arising from a revenue contract, such contract assets arise from the production or supply of goods and services and, consequently, do not generate a return individually and largely independently of the entity's other resources. Therefore, the interest income is classified in the operating category. [IFRS 18.B48(b)].



### How we see it

As explained above, if a significant financing component is recognised on a contract asset under IFRS 15, the interest income is classified in the operating category. This may, at first glance, seem counterintuitive, as the interest on a contract liability (i.e., a Type 2 liability) is classified in the financing category. However, in this case, the entity is not raising finance, but providing financing to the customer by providing extended payment terms and the standards is clear that different classification rules apply to assets and liabilities.

Refer to Question 3-11 in section 3.2.2.E above for a discussion on the classification of interest expense on an IFRS 15 contract liability.

**Question 3-14: Where is interest income on a financial asset arising from a service concession arrangement classified in profit or loss?**

Interest income on a financial asset arising from a service concession arrangement in the scope of IFRIC 12 *Service Concession Arrangements* is treated in the same way as a receivable arising under IFRS 15, since it also arises from the production or supply of goods and services, for which the income and expenses are classified in the operating category. That is to say, the interest income is classified in the operating category.

[IFRS 18.B48(b)].

**Question 3-15: Where is interest previously capitalised as part of the cost of an asset classified in profit or loss?**

Certain standards require or permit the capitalisation of directly attributable expenses, such as interest, as part of the cost of an asset. An example of this is IAS 23 *Borrowing Costs*, where borrowing costs (e.g., interest on a Type 1 liability) directly attributable to the acquisition, construction or production of a qualifying asset (e.g., a factory building) must be capitalised. In such a case, interest expense which would otherwise have been recognised in profit or loss and classified in the financing category will be capitalised as part of the cost of the asset and will be recognised, at a later date, in profit or loss as depreciation or amortisation. This raises the question of whether the interest component of the capitalised cost influences the classification of the depreciation.



### How we see it

Once an expense is capitalised to an asset it loses its previous nature and become part of the cost of that asset. Therefore, when the cost of the asset is included in profit or loss (as depreciation, impairment or a gain or loss upon sale) at a future date, it is the nature of the asset that drives the IFRS 18 classification, not the historic nature of the components that make up the capitalised cost of that asset.

In the example above, a factory building is typically used in combination with an entity's other resources to produce goods or services and does not generate returns largely independently. Therefore, to the extent that the depreciation on the building is not capitalised to another asset, the depreciation is included in the operating category. The fact that the cost of the building includes capitalised interest on a Type 1 liability is irrelevant. [IFRS 18.B49].

**Question 3-16: Where are gains and losses arising from the remeasurement of contingent consideration in a business combination classified?**

The gains or losses recognised in profit or loss on the subsequent remeasurement of contingent consideration in a business combination under IFRS 3 are classified in the operating category, provided that the related business combination includes assets that will give rise to income and expenses classified in the operating category.

[IFRS 18.B49(f), IFRS 18.B55(c)].



### How we see it

In our view, the specific guidance on contingent consideration in IFRS 18 applies to all types of contingent consideration, including those meeting the definition of a derivative, despite the general requirements for classification of income and expenses from derivatives also provided in IFRS 18.

**Question 3-17: How is income from government grants classified?**

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* permits income from government grants to be included in the statement of profit or loss 'gross' or 'net' of the related expense.<sup>12</sup> Entities which choose to present the income from government grants 'gross' within the statement of profit or loss are then required to follow the general classification requirements of IFRS 18 when classifying this income in the statement of profit or loss. In contrast, government grant income netted against the related income, expense, asset or liability when applying IAS 20, in principle, follows the IFRS 18 classification of the *related item* against which it is netted.

Government grant income generally does not arise from an asset which generates returns individually and largely independently of an entity's other resources, nor from a liability which involves only the raising of finance (i.e., a Type 1 liability). Government grant income also does not represent interest income (including from interest rate changes) recognised on other liabilities (i.e., Type 2 liabilities) as a result of applying other requirements in IFRS accounting standards.

Consequently, government grant income presented gross will generally be classified in the default category, i.e., the operating category. This means that, in certain cases, government grant income presented gross in the statement of profit or loss applying IAS 20 could be classified in a different category from government grant income presented net under IAS 20.



**Illustration 3-4: Classification of income from government grants**

**Illustrative example A**

Entity A receives a government grant to purchase a new rolling mill that it uses in combination with other assets to produce goods. [IFRS 18.B48(a)].

The entity recognises the grant as deferred income in the statement of financial position and has a policy of presenting the government grant income 'gross' in the statement of profit and loss. The deferred income is released to the statement of profit or loss over the useful life of the machine, applying the requirements of IAS 20.

**Analysis**

The grant income represents the release of the deferred income recognised in the statement of financial position. It does not arise from the investment in the rolling mill, which itself is an asset used in conjunction with others to generate a return. Neither does it arise from a Type 1 liability, nor does it represent interest income recognised on a Type 2 liability for the purposes of applying other requirements in IFRS accounting standards. It is appropriate to classify the government grant income in the operating category.

Had Entity A had an accounting policy of presenting the government grant income 'net', it would have reduced (or netted) the government grant income against the related depreciation expense on the mill, and given the nature of the asset, this lower depreciation expense would also have been classified in the operating category.

**Illustrative example B**

Entity B receives a government grant to reimburse it for the interest expense incurred on its loan arrangement with Bank X. The government grant income is received in full on the same date the loan is taken out.

Entity B has a policy of presenting government grant income 'gross' in the statement of profit or loss. It recognises the grant income as deferred income in the statement of financial position and releases the deferred income to the statement of profit or loss as the interest on the bank loan is paid, applying the requirements of IAS 20.

### Analysis

The government grant income is not income arising from an asset which generates returns individually and largely independently, nor does it arise from a Type 1 liability, as it is not part of the initial or subsequent accounting for the amortised cost of the loan arrangement with Bank X under IFRS 9. It also does not represent interest income recognised on a Type 2 liability for the purposes of applying other requirements in IFRS accounting standards. As a result, it is appropriate for Entity B to classify the government grant income in the operating category.

Had Entity B had an accounting policy of presenting the government grant income net in the statement of profit or loss (i.e., setting it off against the interest charged), it would have presented a reduced interest expense on its Type 1 liability to Bank X and this reduced interest expense would have been classified in the financing category.



### How we see it

We believe it is generally appropriate to classify government grant income which is presented 'gross' in the statement of profit or loss under IAS 20, within the default category - i.e., within the operating category. However, practice might develop on this matter and needs to be monitored.

### 3.2.3.A Operating profit or loss subtotal

The standard specifies that an entity must present a subtotal representing operating profit or loss, which comprises all income and expenses classified in the operating category. [IFRS 18.69(a), IFRS 18.70]. This has been introduced to provide decision-useful information to users, to reduce diversity in reporting and to enhance comparability. [IFRS 18.BC88].

Under current practice (IAS 1), many entities already present an operating profit measure, but the content of operating profit measures can vary quite significantly across entities, and these are often not comparable from one entity to the next.

Consistency is a key goal of the new requirements and the Board acknowledged that there are differing views about what should be included in 'operating profit'. However, the Board expects that requiring all entities to present an 'operating profit' subtotal, which comprises all income and expenses not included in the investing or financing categories, will provide a consistent starting point for the analysis by users and achieve comparability between entities. The Board explained that there are other mechanisms which can be used by an entity to provide additional information about aspects of its financial performance:

- Presentation of additional line items or subtotals (see section 2.1.1.B above)
  - Further disaggregation (see section 2.2 above)
- And
- Presentation of management-defined performance measures (or MPMs - see section 4 below). For example, the presentation of an MPM showing operating profit excluding expenses regarded as non-recurring or unusual could be disclosed. [IFRS 18.BC93].

As noted above, the operating category is a default category, therefore, 'operating profit' itself is not directly defined, as it would be near impossible

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12 Refer to IAS 20.26, IAS 20.27 and IAS 20.29  
See International GAAP® 2026, Chapter 25. Available on [ey.com/IFRS](https://www.ey.com/IFRS).

Many entities already present an operating profit measure, but the content of operating profit measures can vary quite significantly across entities, and these are often not comparable from one entity to the next

to develop a direct definition that was appropriate for all entities and could be applied consistently. Moreover, applying a direct definition would inevitably require significant judgement and could result in inconsistent application, for example, an entity using a function of expense method might exclude from the operating category an operating expense that is not allocated to a function line item. By defining what is to be classified in the investing and financing categories, the Board believes that the application of judgement with respect to the operating category will be reduced and, therefore, more consistent application will be achieved. [IFRS 18.BC89, IFRS 18.BC91].

The Board considered how this requirement would relate to entities with a specified main business activity of investing in assets or providing financing to customers (see section 3.3.1 below). Without the specific requirements relating to classification for entities with specified main business activities, those entities would be prevented from presenting key measures of performance in the operating category. As explained in section 3.3.1 below, this resulted in the requirement for such entities to classify some income and expenses in operating category instead of investing or financing. It is important to note that the reverse does not apply. An entity cannot exclude income and expenses from its operating category, based on whether those income and expenses arise from its main business activities. [IFRS 18.BC90].



### How we see it

Although many entities already present an operating profit or loss subtotal, it cannot be presumed that the classification of income and expenses to the operating category will not change. For example, many entities currently present 'share of the profit or loss of associates and joint ventures accounted for using the equity method' in the operating category, which is not permissible under IFRS 18.

### Frequently asked questions

**Question 3-18: Can an entity use alternative labels such as 'operating result' or 'net operating income' for the required subtotal 'operating profit or loss'?**

Although IFRS 18 uses terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', the standard makes it clear that an entity may use other terms to label the required totals, subtotals and line items, as long as they are labelled in a way that faithfully represents the characteristics of the items. [IFRS 18.11, IFRS 18.43]. In addition, IFRS 18.11 uses the example of the term 'net income' as an allowable alternative label for 'profit or loss'. However, in practice, local jurisdictions could attach a different meaning to such labels.



### How we see it

Since IFRS 18 allows for alternative labels for the required totals, subtotals and line items, we believe 'operating result' and 'net operating income' are acceptable alternative labels for 'operating profit' provided these alternative labels do not have a different connotation in the specific jurisdiction.

### 3.2.4 Income taxes category

An entity is required to classify tax expense or tax income that are included in the statement of profit or loss applying IAS 12, and any related foreign exchange differences, in the income taxes category. [IFRS 18.67]. Income and expenses classified in the income tax category are not subject to the requirements for classifying income and expense in the operating, investing and financing categories. [IFRS 18.B29]. The Board clarified that the presentation of income and expenses related to income tax in that category complies with the presentation requirements of IAS 12. Although this category does not result in a required subtotal, generally entities present profit before income taxes as a subtotal when it is applicable. [IFRS 18.BC83]. In March 2026<sup>13</sup>, the IFRS Interpretations Committee (IFRS IC) considered whether an entity applying IFRS 18 was permitted to present taxes or other charges, that are not tax expenses or tax income applying IAS 12, either:

- In the 'income tax expense or income' line item
- Or
- Within the income taxes profit or loss category

The IFRS IC concluded that only tax expenses or tax income included in profit or loss applying IAS 12 (and any related foreign exchange differences) are permitted to be presented in the income taxes category in the statement of profit or loss. [IFRS 18.67]. Therefore, taxes or other charges, that are not tax expenses or tax income applying IAS 12, must not be presented in either the income tax expense or income line item or in the income taxes category.

At the time of writing, the IFRS IC's agenda decision was still subject to consideration by the IASB and, therefore, not yet authoritative - entities are advised to monitor the process.

### 3.2.5 Discontinued operations category

An entity is required to classify in the discontinued operations category income and expenses from discontinued operations as required by IFRS 5. [IFRS 18.68]. Income and expenses classified in the discontinued operations category are not subject to the requirements for classifying income and expense in the operating, investing and financing categories. [IFRS 18.B29]. The Board clarified that the presentation of income and expenses related to discontinued operations in that category complies with the presentation requirements of IFRS 5. Although this category does not result in a required subtotal, generally entities present profit before discontinued operations as a subtotal when it is applicable. [IFRS 18.BC83].

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13 [IFRIC Update](#), March 2026, available on the IFRS Foundation's website.

An entity is required to classify income and expenses arising from the derecognition or change in classification of an asset or liability in the same way as any other expenses previously arising from the asset or liability, i.e., in the 'old' way

### 3.2.6 Changes in classification and derecognition

Some transactions result in a change to the category in which an entity classifies income and expenses. For example, a non-financial asset might be derecognised or classified as held for sale or might be reclassified from one category to another on the statement of financial position. [IFRS 18.BC201].

The question arises as to whether such gains or losses arising from these transactions are classified according to the 'old' or 'new' classification of income and expenses. IFRS 18 specifically requires an entity to classify income and expenses arising from the derecognition or change in classification of an asset or liability in the same way as any other expenses arising from the asset or liability immediately before the derecognition or change in classification, i.e., in the 'old' way. [IFRS 18.BC202, IFRS 18.BC203].

The following Illustration, based on the standard and the Basis for Conclusions on IFRS 18, shows three examples of this.

[IFRS 18.B60, IFRS 18.BC200, IFRS 18.BC202].



#### Illustration 3-5: Gain or loss on disposal of selected assets

IFRS 18 requires an entity to classify income and expenses arising from the derecognition, or a change in classification, of an asset or liability in the same category as expenses arising from the asset or liability immediately before the derecognition or change in classification. The following illustrates how this applies in three common situations:

- **Property, plant and equipment**  
Assume an entity sells an item of property, plant and equipment that it used in its own operations. Since depreciation on the item was classified in the operating category, the gain or loss on disposal of the item of property, plant and equipment is also classified in the operating category.
- **Investment property**  
Assume an entity sells one of its investment properties, for which the income was previously classified in the investing category. The gain or loss on the disposal of the investment property is also classified in the investing category.
- **Step acquisition of a subsidiary**  
Assume an entity with an equity accounted associate engages in a step acquisition to obtain a controlling shareholding. Before the execution of the step acquisition, the acquirer will have classified income and expenses from the associate in the investing category. Therefore, on remeasurement of the associate to fair value immediately before the step acquisition as required by IFRS 3,<sup>14</sup> the entity classifies any gain or loss on the pre-acquisition remeasurement in the investing category.

The standard explains that the requirement to classify income and expense from the asset in the 'old' category also applies to an individual asset classified as held for sale under IFRS 5. This would include the income and expenses from: [IFRS 18.B47(g), IFRS 18.B49(e), IFRS 18.B60]

- An impairment loss arising on classification as held for sale
  - Any subsequent remeasurement while held for sale
- And
- The gain or loss upon ultimate disposal

14 Refer to IFRS 3.42.

### 3.2.6.A Change in use of an asset

Sometimes an entity might reclassify an asset without derecognising it, for example, it might reclassify an item of property, plant and equipment to investment property. In such a case, the entity classifies any income or expenses, recognised in the statement of profit or loss and arising from the accounting for the change in use of the asset, in the same category as it classified income and expenses from that asset immediately before the transfer. As a result, any decrease in the carrying amount of the property not included in a revaluation surplus or any increase which reverses a previous impairment<sup>15</sup> of the item of property, plant and equipment will be classified in the operating category. [IFRS 18.B62, IFRS 18.BC203].

#### Frequently asked questions

##### **Question 3-19: Where is the selling profit or loss on the recognition of a net investment in a finance lease classified?**

Applying IFRS 16, on entering into a finance lease, the lessor derecognises the asset which is the subject of the lease, recognises the net investment in the lease, and records the resulting selling profit or loss.

IFRS 18 requires the profit or loss on disposal of an item to be classified in the same category as the income and expenses arising on that item immediately before derecognition. [IFRS 18.B60]. Therefore, for most items of property, plant and equipment, the selling profit or loss on entering into a finance lease will be classified in the operating category, as the property, plant and equipment will not have previously generated income individually and largely independently. This classification applies irrespective of whether the investment in the finance lease will give rise to income that will be classified in the investing category after the commencement of the lease, since gains or losses on derecognition are classified based on profit or loss category *before* the change in use or disposal.

There may also be cases where classification in the investing category is appropriate. As an example, this could arise if a lessor previously leased out an investment property, for which the income was classified in the investing category, under an operating lease. If the lessor then enters into a new arrangement which is assessed to be a finance lease, the selling profit or loss on derecognition of the investment property and recognition of the net investment in the lease would be classified in the investing category.

A different classification could apply to entities with a specified main business activity, see Question 3-27 in section 3.3.2.C below.

### 3.2.6.B Derecognition of liabilities

When derecognising a liability, an entity is required to apply the same classification requirements to classify the income and expense on derecognition as it would when recognising a liability (as discussed in section 3.2.2 above). Therefore, the entity will first need to assess whether it is a Type 1 or Type 2 liability and follow the appropriate guidance. For example, any gain or loss on the prepayment of a Type 1 liability, for which income and expenses was previously included in the financing category, will also be classified in the financing category. In contrast, income and expenses from the derecognition of a Type 2 liability such as a payable (for goods received) as part of a supplier finance arrangement, and the recognition of a new financial liability, will be classified in the operating category. [IFRS 18.B61]. This is because a gain or loss on the derecognition of a Type 2 liability does not represent interest income and expenses

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15 Refer to IAS 40.61-62.

(including from interest rate changes) identified for the purposes of applying other requirements in IFRS accounting standards. [IFRS 18.61, IFRS 18.BC164].

### 3.2.6.C Changes in classification and derecognition of groups of assets (and liabilities)

A single transaction could result in derecognition, classification as held for sale, or a change in use of a whole group of assets (or a group of assets and liabilities). Income and expenses arising from these assets (or assets and liabilities) might have previously been classified in different categories immediately before the transaction. The standard introduces a 'tainting' concept, whereby the presence in a group of a single asset whose related income and expenses were classified in the operating category would require the income and expenses for the whole of that group to be classified in the operating category. [IFRS 18.B63]. Therefore, an entity classifies income and expense from such a transaction:

- In investing, if the group of assets previously generated income and expenses classified only as investing (any income tax assets in the group are disregarded for this purpose)
- In operating for all other groups of assets (or groups of assets and liabilities) [IFRS 18.B64, IFRS 18.BC204-BC206]

Thus, if a subsidiary that was disposed of included both assets that generated operating category income and expenses and an asset that generated only investing category income and expenses, the total gain or loss on disposal would be presented in the operating category, as the amount is not apportioned between categories.



#### Illustration 3-6: Classification of the gain or loss on the disposal of a subsidiary

Entity G, a conglomerate, disposed of three subsidiaries in the current period, resulting in a gain or loss on disposal for each.

The following table illustrates the different classifications of the gain or loss on disposal of each subsidiary in the consolidated statement of profit or loss of Entity G. [IFRS 18.B64, IFRS 18.BC204-BC206].

| Type of subsidiary   | Profit or loss category |
|--|-------------------------|
| Subsidiary B held assets which generated income and expenses previously classified in both the operating and investing categories within Entity G's consolidated financial statements.   | Operating               |
| Subsidiary C held only an investment property (and a related income tax asset). The income and expenses from the investment property were previously classified in the investing category. There are specific requirements for entities with a main business activity of investing in assets, as discussed in section 3.3.2 below. | Investing               |
| Subsidiary D held the Group's entire manufacturing operations. The sale of Subsidiary D constitutes a discontinued operation under IFRS 5.   | Discontinued operations |

Note that foreign exchange differences reclassified from equity (e.g., from the foreign currency translation reserve) as part of the disposal of a foreign operation will form part of the gains or losses and, therefore, will also be included in the appropriate category - see section 3.2.7 below. [IFRS 18.B64(a)].

### Disposal groups held for sale and discontinued operations

The same 'tainting' principle applies to income and expenses from a disposal group held for sale, for example:

- An impairment loss arising on classification of the disposal group as held for sale
  - Any subsequent remeasurement while held for sale
- And
- The gain or loss upon ultimate disposal

Thus, if the disposal group included assets which generated income classified in the operating category, all the expenses listed above from the entire disposal group will also be included in that category. [IFRS 18.B64].

However, if the disposal group also meets the definition of a discontinued operation under IFRS 5, all the income and expenses are classified in the discontinued operations category (see section 3.2.5 above), rather than in the operating category. [IFRS 18.BC204].

### 3.2.7 Foreign exchange differences and the gain or loss on the net monetary position

The basic principle for classifying foreign exchange differences is that they follow the category in which the related income and expenses from the item giving rise to the foreign exchange difference have been classified, unless doing so would involve undue cost or effort. If the latter is the case, all such differences are classified in the operating category. [IFRS 18.B65, IFRS 18.B68, IFRS 18.BC207-BC208]. For example, foreign exchange differences on a trade receivable denominated in a foreign currency will be classified in the operating category. In contrast, foreign exchange differences arising from a Type 1 liability (for example, a debt instrument liability denominated in a foreign currency) will be classified in the financing category, if the related interest expense on that liability is classified in the financing category. [IFRS 18.B66]. There are specific requirements for entities with a main business activity of providing financing to customers, as discussed in section 3.3.3.K below.

In formulating this requirement, the Board considered that requiring the foreign exchange differences to be classified in the same category as the income or expense that gave rise to them contributes to a faithful representation of the business activities, as it provides a complete picture of the performance of an entity's main business activities. At the same time, the Board acknowledged that this could impose large implementation costs on preparers, as many systems are currently configured to capture all foreign exchange differences in aggregate as a single amount. [IFRS 18.BC209, IFRS 18.BC210, IFRS 18.BC211]. To address this, the Board introduced an exemption based on undue cost or effort for each item giving rise to foreign exchange differences. The exemption, requiring those differences to be classified in operating, is only applicable to the subset of differences that cannot be classified without undue cost or effort. [IFRS 18.BC212].

The assessment of whether classifying foreign exchange differences involves undue cost and effort is performed for each item giving rise to foreign exchange differences and is specific to the facts and circumstances of each case. Nonetheless, if the same facts and circumstances relate to a number of items, the same assessment can be applied. [IFRS 18.B68].

The 'undue cost or effort' assessment is made on a transaction by transaction basis. An entity is, therefore, required to make the assessment as new transactions occur, which give rise to foreign exchange differences, and at each reporting date to consider the current year remeasurements of monetary items applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*. IFRS 18 does not define 'undue cost or effort' but the same

term is used in other IFRS accounting standards, for example IFRS 9 (see Question C.7-1 in section C.7 of Appendix C below), and is generally understood to not represent a low hurdle.<sup>16</sup>

The Board acknowledged that the requirement to classify foreign exchange differences in the operating category under the undue cost and effort exemption is not a perfect solution, as it might cause other categories to be incomplete. However, it is consistent with the Board's view of the operating category as a default category and ensures that operating profit is complete, thus enhancing the usefulness of the operating profit subtotal as a measure of performance. [IFRS 18.BC213, IFRS 18.BC214, IFRS 18.BC215].



## How we see it

The undue cost and effort exemption, resulting in the classification of particular foreign exchange differences in the operating category, is a pragmatic solution which could involve significant judgement.

In some cases, income and expenses from a Type 2 liability might be classified in two different categories, as the transactions involve financing and another activity, for example, purchased services denominated in a foreign currency with extended credit terms, could give rise to an operating expense for the purchase of the services and a financing expense for the interest on the payable. [IFRS 18.BC217]. In this instance, judgement is required to determine to which of the two amounts the foreign exchange difference relates. [IFRS 18.B67]. In applying this judgement, the entity considers whether the foreign exchange differences arise from: [IFRS 18.BC218]

- (a) The entity's financing decisions and is, therefore, classified in the financing category
  - (b) The entity's purchasing decisions and is, therefore, classified in the operating category
- Or
- (c) Both (a) and (b)

However, the standard is clear that the foreign exchange gain or loss will then be allocated in its entirety to the relevant category and that the disaggregation of a foreign exchange difference arising on a Type 2 liability into more than one category is prohibited. [IFRS 18.BC219]. Therefore, the judgement is made about the difference as a whole. It is made on a case-by-case basis and there is no requirement to classify in the same category differences on all Type 2 liabilities, but differences arising on liabilities of a similar nature must be classified in the same category. [IFRS 18.B67].

Other than the requirement to classify the foreign exchange differences on similar liabilities in the same category, the standard does not provide any further guidance or restrictions around applying this judgement.

## Frequently asked questions

### Question 3-20: How are foreign exchange differences on Type 2 liabilities classified?

Type 2 liabilities, by definition, relate to more than one activity. [IFRS 18.59(b), IFRS 18.BC159(b)]. For example, a lease liability relates to the acquisition of a right to use a leased asset as well as to the receipt of financing. A trade payable with a three-month credit term relates to the acquisition of goods or services and contains a financing component, even if no interest is accounted for due to the short-term nature of the liability.

<sup>16</sup> For further guidance on the meaning of 'undue cost or effort', see International GAAP® 2026, Chapter 47 at section 5.9.1. Available on [ey.com/IFRS](https://ey.com/IFRS).

When applying the requirements of IFRS 18.B67 to such liabilities, an entity could consider both activities that gave rise to the liability in order to assess the appropriate category in which the foreign exchange difference must be classified. As IFRS 18 is clear that an entity is not permitted to allocate the foreign exchange differences on a Type 2 liability between categories, judgement is needed to decide which of these activities takes precedence and, therefore, in which single category to classify the difference. [IFRS 18.B67]. If such an assessment would involve undue cost of effort, the foreign exchange difference is classified in the operating category in its entirety. [IFRS 18.B68].



### How we see it

The classification of foreign exchange differences on a Type 2 liability requires the use of judgement, based on the particular facts and circumstances of the entity.

Therefore, differing conclusions on similar liabilities could occur between entities. However, each entity is required to classify the foreign exchange differences on similar Type 2 liabilities in the same category.

[IFRS 18.B67].



### Illustration 3-7: Classification of foreign exchange differences on Type 2 liabilities

An entity recognises a foreign exchange difference, applying IAS 21, on the following Type 2 liabilities:

- (a) A lease liability under IFRS 16
- (b) A short-term payable for inventory under IFRS 9, on which no interest expense is recognised due to the immaterial impact of discounting

IFRS 18.B67 requires an entity to use its judgement to determine the appropriate classification for these foreign exchange differences.

#### (a) Lease liability

Applying judgement, the entity might conclude that the foreign exchange differences on a lease liability relate to the interest expense included in the financing category, because IFRS 16 treats lease arrangements as a form of financing and the choice between buying or leasing an asset is a financing decision. [IFRS 18.BC218, IFRS 18.BC219].

#### (b) Interest free short-term payable

At the same time, the entity might conclude, in applying judgement, that the foreign exchange differences on a short-term trade payable, on which no interest expense is recognised, for the acquisition of inventory relate to amounts included in the operating category. This might be on the basis that the decision to purchase inventory in a foreign currency is an operating decision, or because the trade payable does not result in any income or expense being recognised in the financing category.

[IFRS 18.BC218, IFRS 18.BC219]. Therefore, classifying only the foreign exchange differences in the financing category could conflict with the general principle for classifying foreign exchange differences in the same category as the income and expenses from the items that gave rise to the foreign exchange differences.

**Question 3-21: How are foreign exchange differences on intercompany loans, eliminated on consolidation, classified in profit or loss?**

Within a multinational group, the parent commonly has a different functional currency from its subsidiaries. Any intercompany balances between such a parent and its subsidiaries, which do not form part of the net investment in a foreign operation are eliminated on consolidation applying IFRS 10 Consolidated Financial Statements. However, the foreign exchange differences recognised in the consolidated profit and loss, applying IAS 21.45, will not be eliminated.

Applying the basic principle for classifying foreign exchange differences (i.e., classifying in the same category in which the related income and expenses from the underlying item have been classified) to such cases is problematic. This is since, from the consolidated group's perspective, the underlying intercompany balances that gave rise to the foreign exchange differences do not exist (i.e., they've been eliminated under IFRS 10). Therefore, there does not appear to be 'related income and expenses' that the foreign exchange differences can 'follow'.

This issue was considered by the IFRS IC in March 2026.<sup>17</sup> The IFRS IC concluded there are two reasonable readings of IFRS 18.B65 in such cases:

- (1) Classify the foreign exchange difference in the operating category, as the default category. [IFRS 18.52, IFRS 18.BC89]. This reading is on the basis that the related income and expenses arising from the item that gave rise to the foreign exchange differences are not included in the consolidated statement of profit or loss and, therefore, there is no 'same' category to follow.
- (2) Classify the foreign exchange difference in the same category in which the related income and expenses would have been classified before their elimination on consolidation, or, if doing so would involve undue cost and effort, in the operating category. This reading is based on the interpretation that IFRS 18.B65 does not require the related income and expenses from the intragroup loan to be included in the consolidated statement of profit or loss in order for the foreign exchange differences to follow their classification before elimination. This reading is applied from the perspective of the consolidated entity and, therefore, could differ from the category in which the subsidiary classifies the exchange difference in its individual financial statements (e.g., where the group and the subsidiary have different main business activities).

For example, consider a loan from a parent to its subsidiary with a different functional currency (intragroup loan), which is:

- Denominated in the functional currency of the parent
- Not part of the parent's net investment in the subsidiary

The subsidiary, therefore, has a foreign currency monetary item (Type 1 liability) and applies IAS 21 to translate the loan into its functional currency at the reporting date, recognising foreign exchange differences in the financing category in its individual statement of profit or loss. In accordance with IAS 21.45, these foreign exchange differences are recognised in the consolidated statement of profit and loss. In this example, it is appropriate to recognise the foreign exchange difference either in the operating category, applying the first reading or in the financing category, applying the second reading.

The IFRS IC observed that an entity must develop an accounting policy in accordance with IAS 8 for its reading of IFRS 18.B65 in such circumstances (i.e., either (1) or (2) above) and apply it consistently.

<sup>17</sup> [IFRIC Update](#), March 2026, available on the IFRS Foundation's website.

### 3.2.7.A Gains or losses on the net monetary position in a hyperinflationary economy

In a hyperinflationary economy, an entity might recognise a gain or a loss on the net monetary position, representing the excess of monetary assets over monetary liabilities and vice versa. IAS 29 *Financial Reporting in Hyperinflationary Economies* suggests that the gain or loss on the net monetary position might be presented with other related items such as interest income and expense and foreign exchange gains or losses. If the entity does not present the gain or loss on the net monetary position with the associated income and expense, it is required to classify the gain or loss in the operating category as it will not, in its totality, meet the requirements to be classified in the investing or financing categories. This is consistent with the use of the operating category as a default category.

[IFRS 18.B69, IFRS 18.BC220, IFRS 18.BC221].

### 3.2.8 Gains and losses on derivatives and designated hedging instruments

Specific requirements are set out for the classification of gains and losses on financial instruments designated as hedging instruments, to the extent these are recognised in profit or loss. The basic principle is that all gains and losses must be classified in the same category as the income and expenses (or assets or liabilities) affected by the risk the financial instrument is used to manage. However, in the event this would lead to the grossing up of gains and losses, all gains and losses on the hedging instrument or derivative must be classified in the operating category. The same requirements apply to gains and losses on a derivative that is not designated as a hedging instrument, but is used to manage identified risks, unless it would involve undue cost or effort, in which case the gain or loss is classified in the operating category.

[IFRS 18.B70, IFRS 18.B72, IFRS 18.BC223].

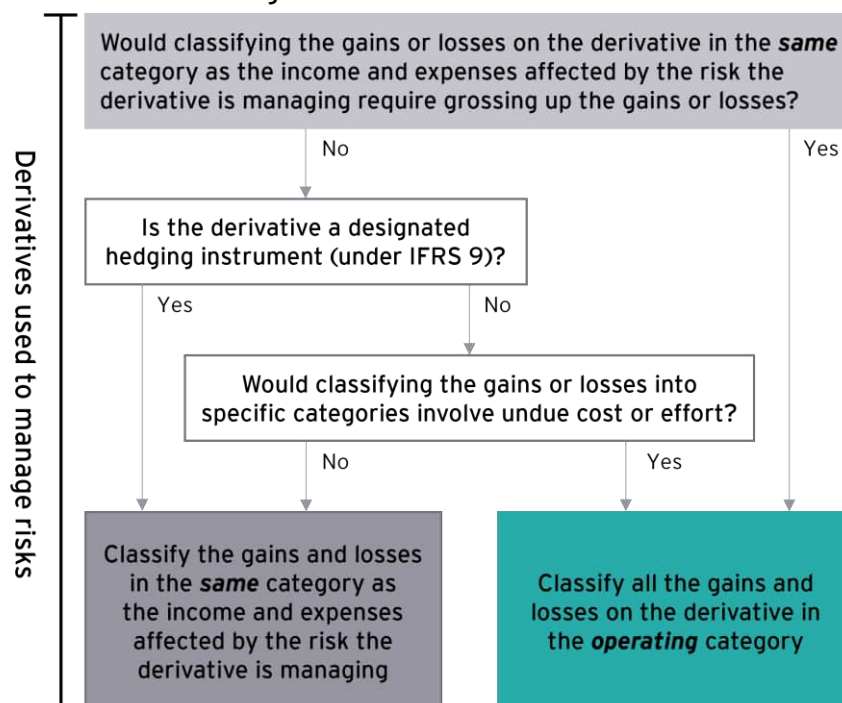
Thus, the gains and losses are classified as follows: [IFRS 18.BC224]

- **Financial instruments designated as hedging instruments:**  
To the extent the gain or loss on the derivative is recognised in the statement of profit or loss, these are classified in the same category as the income and expenses exposed to the risks that the derivative is covering, unless this would require grossing up of those gains and losses. If the latter is the case, an entity will classify all gains and losses on the derivative in the operating category.
- **Derivatives not designated as hedging instruments, but used to manage exposure to identified risks:**  
The gains and losses on the derivative are classified in the same category as the income and expenses affected by the risks that the derivative is managing, unless this would require either undue cost or effort, or the grossing up of the gains and losses. If one of the latter two is applicable, an entity will classify all gains and losses on the derivative in the operating category.

The following diagram, based on Figure 5 in the Illustrative Examples to IFRS 18, summarises these requirements and the classification for each type is further discussed in section 3.2.8.A and section 3.2.8.B below.

[IFRS 18.IE Figure 5].

**Figure 3-6: Classification of gains and losses on derivatives used to manage risks**



Any gains or losses arising on an undesignated component of a designated hedging instrument, will be classified in the same category as those arising on the designated component. Similarly, the ineffective portion of a gain or loss must be classified in the same category as the effective portion.

[IFRS 18.B71].

The classification of derivatives that are not used to manage identified risk are discussed further in section 3.2.8.D below.

The requirements for derivatives only specify the appropriate category for gains and losses arising on such derivatives to the extent these gains or losses are recognised in profit or loss. They do not override the requirements in other IFRS accounting standards, nor do they specify the line item within the statement of profit or loss in which to include such gains or losses.

As a result, entities will need to consider the aggregation and disaggregation guidance set out in section 2 above. [IFRS 18.B76].

### 3.2.8.A Gains and losses on designated hedging instruments

Entities with designated hedging instruments will have identified the link between the derivative and the risk being hedged in order to comply with the eligibility criteria in IFRS 9 and for the purposes of creating the hedge documentation. Therefore, providing users with information about the risk management strategy via classifying the gains and losses on both the derivative and the income and expenses arising from the hedged risk in the same category is expected to provide useful information.

[IFRS 18.BC225].

However, if the hedged items are classified in more than one category, with offsetting risk positions, the entity would need to gross up the gains and losses on the hedging instrument to classify them in the relevant categories. Nevertheless, this presentation is not permitted by IFRS 9, as all gains and losses from a single hedging instrument must be presented in a separate line

item, to avoid an artificial gross up.<sup>18</sup> Consequently, IFRS 18 requires such gains or losses to be classified in the operating category to avoid a gross up. [IFRS 18.BC226].

The type of situation in which grossing up might occur is when an entity uses a derivative for a dual purpose, for example, to hedge net foreign currency risk on revenue (classified in operating) and interest expenses (classified in financing). Presenting the gain or loss on the derivative in each category would require a larger gain or loss to be presented in each category than actually arose on the derivative in order to arrive at the net position. Thus, this is prohibited and the whole gain or loss is presented in the operating category. [IFRS 18.B74, IFRS 18.B75].

### 3.2.8.B Gains and losses on other derivatives used to manage exposure to identified risks

As many entities use derivatives to manage risk without designating them as hedging instruments under the IFRS 9 hedge accounting rules, it is expected that those entities will be monitoring whether the derivatives actually mitigate the identified risk. As a result, the entity is expected to have the information necessary to determine the link between the derivative and the risk it manages, so the Board concluded that classifying the gains and losses in the same way as for designated hedging instruments will provide useful information. However, the Board acknowledges that, in some cases, identifying gains or losses affected by the risk managed could involve undue cost or effort. In such cases, the gains and losses must be classified in the operating category. [IFRS 18.BC227, IFRS 18.BC228].

The prohibition on grossing up gains and losses, discussed in section 3.2.8.A above, equally applies to derivatives that are not designated as hedging instruments, but are used to manage identified risks. Therefore, if grossing up were needed to allocate gains and losses into the applicable categories this would not be permitted and the net gains and losses are required to be classified in the operating category. [IFRS 18.BC230].



#### **Illustration 3-8: Classification of the gains and losses on a derivative taken out to manage a net liability foreign currency exposure**

In March 2026<sup>19</sup>, The IFRS IC discussed the classification of the gains and losses on an external derivative that is taken out to manage a net liability foreign currency exposure. In the fact pattern presented, the group has issued a loan to a third party (investing asset) of CU100 and has obtained a loan of CU120 (financing liability) from another third party. Both asset and liability are denominated in the same foreign currency, which is different from the functional currency of the group. The group does not have either of the specified main business activities and, therefore, the interest income from the asset is recognised in the investing category and the interest expense on the liability is recognised in the financing category.

To manage the net exposure of CU20, the entity takes out an external forward contract with a nominal value of CU20 to sell local currency and buy foreign currency. The group does not designate this external derivative as a hedging instrument applying IFRS 9 hedge accounting but does identify the link between the instrument and the risk it is intended to manage.

18 See International GAAP® 2026, Chapter 50 at section 7.1.3. [Available on ey.com/IFRS](https://www.ey.com/IFRS).

19 [IFRIC Update](#), March 2026, available on the IFRS Foundation's website.

The IFRS IC observed that, based on the application guidance in IFRS 18.B70-B76, the entity must first identify the risk it is managing - which is, in this case, the net liability foreign currency exposure of CU20. It does not manage the gross exposures of the CU100 investing asset and CU120 financing liability. Therefore, the requirements prohibiting the grossing up of gains and losses are not relevant in the fact pattern. As the exposure only arises on the CU20 net liability foreign currency exposure, which relates solely to the financing liability and, therefore, only affects the financing category in profit or loss, the IFRS IC concluded that the gains and losses on the external derivative are also classified in the financing category.



### How we see it

Many entities already present the gains and losses on designated hedging instruments and on those instruments used to manage risk in the manner required by IFRS 18. However, the new requirements will require entities who are not currently presenting this information in line with IFRS 18 to change current practice.

#### 3.2.8.C Income and expenses on non-derivative financial instruments used to manage risk, but not designated as hedging instruments

An entity may use a *non-derivative* financial instrument to manage exposure to identified risks, without designating it as a hedging instrument. The IASB considered introducing a similar approach for such instruments to that required for derivative instruments, as described in section 3.2.8.B above, but decided against it as it might be too costly for entities to apply. This is because non-derivative financial instruments are typically held for more than just one purpose. For example, a debt instrument denominated in a foreign currency can have two functions: to provide financing; and to manage the entity's foreign currency risk exposure.

Given the IASB decided against providing specific requirements, an entity classifies the income and expenses on such non-derivative financial instruments in the operating, investing or financing categories, applying the general classification requirements of IFRS 18. [IFRS 18.BC229].

#### 3.2.8.D Income and expenses arising on derivatives not used to manage exposure to identified risks

The classification of derivatives that are *not* used to manage identified risk depends on whether they relate to transactions that involve only the raising of financing. Therefore, if a derivative is not used to manage identified risks, and is: [IFRS 18.B73, IFRS 18.BC232, IFRS 18.BC233, IFRS 18.BC234, IFRS 18.BC235]

- **Related to a transaction that involves only the raising of finance**  
Any gains or losses are classified in the financing category. There are specific requirements for entities with a main business activity of providing financing to customers, as discussed in section 3.3.3.l below.
- **Not related to transactions involving only the raising of finance**  
Any gains or losses are classified in the operating category.

It is important to note that the specific requirements for entities with a specified main business activity only apply to some income and expenses, while the rest of an entity's income and expenses are still subject to the general requirements

A new concept in IFRS 18 is that of a 'specified main business activity'.

When classifying its income and expenses, an entity will be required to assess whether it has one or both specified main business activity of:

- Investing in assets
- And
- Providing finance to customers

### 3.3 Requirements for specific entities

The Board identified that if certain entities applied the general requirements, they would classify income and expenses from their main business activities in categories other than the operating category, preventing an entity from presenting key measures of its operating performance in the operating category. [IFRS 18.BC90]. Therefore, as an exception to the general requirements, the standard requires entities with a 'specified main business activity' (see section 3.3.1 below) to classify *some* of their income and expenses in the operating category that would otherwise have been included in investing or financing. [IFRS 18.50, IFRS 18.BC94].

The standard also includes certain exclusions to the financing category that apply to issuers of:

- Insurance contracts in the scope of IFRS 17 (see section 3.3.5 below)
- And/or
- Investment contracts with participation features in the scope of IFRS 9 (see section 3.3.6 below)

It is important to note that these specific requirements only apply to the income and expenses set out in section 3.3.2 to section 3.3.6 below, while the rest of an entity's income and expenses are still subject to the general requirements. Therefore, these specific entities will be required to consider both the general requirements (discussed in section 3.2 above) and the relevant specific requirements discussed further in this section.

#### 3.3.1 Entities with specified main business activities

A new concept in IFRS 18 is that of a 'specified main business activity'. When classifying its income and expenses, an entity will be required to assess whether it has one or both specified main business activities of:

- Investing in particular types of assets (referred to as 'investing in assets' hereafter)
- And
- Providing finance to customers

The identification of main business activities is limited to these two types. Therefore, it is not necessary to identify *all* the main business activities the entity engages in. It is only necessary to assess whether it engages in these two types, as there are particular classification requirements for entities with either or both of these specified main business activities. [IFRS 18.49].

The standard requires certain items of income and expenses arising from an entity's specified main business activity to be classified in the operating category and thus reflect the nature of these operations. Without the concept of a specified main business activity, such entities would have been required to classify items of income and expenses arising from their day-to-day operations in the investing and financing categories. [IFRS 18.50].

This is significant as investment returns are an important indicator of performance for entities whose main business activity is investing in assets. Similarly, for entities who provide financing to customers, the difference between interest revenue and the related interest expense is an important indicator of operating performance. [IFRS 18.BC94].

It is important to note that an entity's operations include, but are not limited to, its main business activities and that an entity could have more than one main business activity; for example, an entity might manufacture a product and also provide financing to customers to buy that product. Both of these activities might be determined to be main business activities. [IFRS 18.B30].

An entity could also have more than one specified main business activity. For example, a bank could invest in financial assets and provide financing to customers with both activities being main business activities for the bank. Similarly, since an entity is able to invest in multiple types of assets, it could also have more than one specified main business activity of investing in particular assets. For example, an insurer, with main business activities of investing in financial assets, could also have a main business activity of investing in non-financial assets, such as investment property.

IFRS 18 provides examples of the types of entities that might fall into these categories: [IFRS 18.B31, IFRS 18.B32]

#### Extract from IFRS 18

|     |   |
|-----|---|
| B31 | Examples of entities that might invest in assets as a main business activity include: <ul style="list-style-type: none"> <li>(a) investment entities as defined by IFRS 10 <i>Consolidated Financial Statements</i>;</li> <li>(b) investment property companies; and</li> <li>(c) insurers.</li> </ul>  |
| B32 | Examples of entities that might provide financing to customers as a main business activity include: <ul style="list-style-type: none"> <li>(a) banks and other lending institutions;</li> <li>(b) entities that provide financing to customers to enable those customers to buy the entity's products; and</li> <li>(c) lessors that provide financing to customers in finance leases.</li> </ul> |

### 3.3.1.A Assessing whether an entity has a specified main business activity

#### I Based on facts, supported by evidence

IFRS 18 is clear that whether an entity has a specified main business activity (i.e., of invests in assets or provides financing to customers ) is a matter of fact and not merely an assertion; the entity will use judgement to make its assessment, and the latter must be evidence-based (see section 3.3.1.B below). [IFRS 18.B33, IFRS 18.BC96]. This assessment will require considering both qualitative and quantitative evidence.

#### II Assessed at the level of the reporting entity

IFRS 18 requires an entity to make the assessment of whether it has specified main business activities for the reporting entity as a whole. Thus, it is possible for a reporting entity that is a consolidated group and a reporting entity that is a subsidiary within that group, to have differing conclusions about its specified main business activities. [IFRS 18.B37]. For example, a subsidiary might have a specified main business activities of investing in certain assets even though the group does not consider such investments a main business activity. As a result, the classification of income and expenses for the subsidiary could differ from that of the group. This ensures that each reporting entity (consolidated, separate, or individual) appropriately reports its specified main business activities, notwithstanding that consolidation adjustments might be required as a result, thus incurring additional cost. [IFRS 18.BC98].

The same considerations apply to a parent entity in its separate financial statements. For example, a parent entity may be a holding company which identified a specified main business activity of investing in unconsolidated subsidiaries (see section 3.3.1.B below), while its subsidiaries provide financing to customers, resulting in the group identifying the latter as a specified main business activity. Thus, the specified main business activity for the consolidated financial statements and the parent's separate financial statements differ. [IFRS 18.BC99].

## Frequently asked questions

### Question 3-22: How does a specified main business activity only identified at a subsidiary level impact the classification of income and expenses in the group accounts?

As noted above, it is possible for a consolidated group and one of the subsidiaries within that group to have different main business activities and, therefore, the classification of income and expenses for the subsidiary may differ from that of the group. [IFRS 18.B37, IFRS 18.BC98].

For example, a financial conglomerate has an insurance and banking business, each operated through a separate subsidiary. In their respective separate financial statements, the insurance subsidiary identifies a specified main business activity of investing in assets and the banking subsidiary identifies a specified main business activity of providing financing to customers. However, at the consolidated level, the group only identifies a specified main business activity of investing in assets, due to the small size of the bank's financing operations relative to the group as a whole.

In this scenario, the group does not identify the provision of financing to customers as a main business activity. Therefore, the special requirements for the classification of income and expenses on Type 1 liabilities by an entity with a specified main business activity of providing financing to customers (discussed in section 3.3.3 below) that apply in the separate financial statements of the banking subsidiary do not apply to the group's consolidated financial statements.



### How we see it

An entity is required to assess whether it has a specified main business activity at the level of the reporting entity (e.g., at the group level for consolidated accounts) rather than following the assessment made at the subsidiary level.

This could require subsidiaries within a group to track the classification of income and expenses separately for internal group reporting purposes and may result in additional consolidation adjustments to reflect the main business activities of the group as a whole.

### III For investing in assets - based on individual or groups of assets

The assessment of whether an entity invests as a specified main business activity in other assets that generate a largely independent return must be performed by assessing either an individual asset or a group of assets with shared characteristics (see section 2.2.2 above). When this principle is applied to groups of financial assets, those groups must be consistent with the classes of financial instruments used for disclosure by class under IFRS 7. [IFRS 18.B40, IFRS 18.BC147].

### IV Assessed at a point in time

The assessment mentioned above is carried out at a point in time, based on facts at that time. This means that if, at a later date, there is a different outcome to the assessment, it will be based on new facts at that moment in time. As a result, any change is treated as a prospective adjustment from the date of the reassessment and there is no need to reclassify comparative amounts. However, to provide useful information to a user, disclosure of the amount and classification of items of income and expense immediately before and after the date of change in the current period is required, as well as information about the amount and classification in the prior period.

[IFRS 18.B41, IFRS 18.51(c), IFRS 18.BC101, IFRS 18.BC102].

## V Scale versus materiality

As noted above, the identification of a specified main business activity requires the use of judgement and while the performance of many, if not most, of an entity's operating activities is material to users, not all activities are of a sufficient scale to result in the performance of those activities being considered an 'important indicator of operating performance' for the entity as a whole. [IFRS 18.B34, IFRS 18.B36, IFRS 18.BC94-BC97]. Therefore, not all activities which an entity conducts on a regular basis are necessarily main business activities, and, for instance, incidental or ancillary activities are not main business activities.



### How we see it

The requirements of the standard and accompanying guidance suggest that the threshold for identifying a specified main business activity is higher than some might intuitively think and that 'main' is a key element of the term 'specified main business activity'. Therefore, ancillary or incidental activities of investing in assets or providing financing to customers do not meet the definition of a 'specified main business activity'.

### 3.3.1.B Indicators of a specified main business activity

The standard includes examples of the type of evidence that indicate an entity has a specified main business activity (i.e., of investing in assets or providing financing to customers); these are discussed below. However, since the assessment requires judgement based on evidence, other factors applicable to the entity may need to be considered - see subsection III below.

#### I Use of a subtotal similar to gross profit

The standard states that an entity is likely to have a specified main business activity if: [IFRS 18.B34, IFRS 18.BC96]

- It uses a subtotal similar to gross profit (see section 4.2.4.B below) as an important indicator of performance
- And
- That subtotal includes items that would be classified in the investing or financing categories, under the general classification requirements in IFRS 18

For example, a bank might use net interest income as an important indicator of performance. That subtotal typically includes interest earned from interest-bearing assets such as loans to customers and interest expenses from interest-bearing liabilities such as deposits. Were the bank unable to identify a specified main business activity of providing financing to customers, it would be required to present the interest expenses in the financing section. This classification would not provide a useful structured summary of the bank's operations. [IFRS 18.BC94(b)].

The standard provides the following examples of the type of evidence which indicates that an entity considers such a subtotal similar to gross profit as an important indicator of performance: [IFRS 18.B35]

- The use of the subtotal in external explanations of operating performance, such as investor presentations
- Or
- The use of the subtotal in internal assessment or monitoring

As mentioned above, the subtotal of net interest income is generally internally monitored or externally communicated as an important measure of operating performance by entities who have a specified main business activity of provide financing to customers. [IFRS 18.BC94(b), IFRS 18.BC96].

## II A single business activity segment

If an entity applies IFRS 8 *Operating Segments*, it is also relevant to consider its segment information for evidence of whether it has a specified main business activity: [IFRS 18.BC97]

- If a reportable segment comprises a single business activity of investing in assets or providing financing to customers, this indicates that the activity is a specified main business activity of the entity. [IFRS 18.B36(a)]
- If an operating segment comprises a single business activity of investing in assets or providing financing to customers and if the performance of this operating segment is an important indicator of the entity's performance, this indicates that the activity could be a specified main business activity of the entity. [IFRS 18.B36(b)].

### Frequently asked questions

#### **Question 3-23: Would a reportable segment, with a single business activity of investing in assets, always result in the entity identifying a specified main business activity of investing in assets?**

The requirements in IFRS 8 could result in relatively small components being designated as reportable segments as IFRS 8:

- Allows an entity to report an operating segment as a reportable segment if management believes that information about the segment would be useful to users (i.e., considered material based on a qualitative threshold), despite that component not meeting any of the quantitative thresholds [IFRS 8.13]
- Requires an entity to identify additional operating segments, at its own discretion, as reportable segments (even if they meet neither the quantitative nor qualitative thresholds) until at least 75% of the entity's revenue is included in reportable segments<sup>20</sup> [IFRS 8.15]

Additionally, a segment that just meets the quantitative thresholds in IFRS 8 might not be significant when considering the entity as a whole.

The above raises the question of whether the single business activity of investing in assets (e.g., real estate investment) of a relatively small reportable segment always represents a specified main business activity for the entity as a whole.

The standard explains that segmental reporting "may provide evidence" that an entity has one of the two specified main business activities and that if a reportable segment only has a single business activity this "indicates that the [...] business activity of the reportable segment is a main business activity of the entity". The use of the words 'may' and 'indicates' make it clear that these are indicative factors and not a requirement. [IFRS 18.B36].

Therefore, while a single activity reportable segment is usually a strong indicator of a main business activity, there may be circumstances in which such a reportable segment does not represent a specified main business activity of the entity as a whole.



#### How we see it

The standard is clear that the assessment of whether an entity has a specified main business activity requires judgement based on evidence, and would, therefore, still require the entity's specific facts and circumstances to be assessed, even if one of the indicators in the standard is present.

20 See International GAAP® 2026, Chapter 32 at section 3.2.4. [Available on ey.com/IFRS](https://www.ey.com/IFRS).

### III Other indicators of a specified main business activity

As noted above, the standard provides two indicators of when an activity is a 'main business activity'. However, the list is not intended to be exhaustive, nor are those two indicators relevant to all entities.

As noted in section 3.3.1.A above, the standard is clear that the assessment of whether an entity has a specified main business activity requires the use of judgement, based on both qualitative and quantitative evidence.

[IFRS 18.B33, IFRS 18.BC96]. And while the presence of one, or both, of two indicators noted in IFRS 18 is usually a strong indicator that the entity has a specified main business activity, they are just examples. Therefore, other factors applicable to the entity also need to be considered.



#### How we see it

An entity is required to apply judgement based on evidence, considering its particular facts and circumstances, in concluding whether the presence of one or both of the indicators provided by the standard results in the entity identifying a specified main business activity.

Since the indicators in the standard are just examples, an entity may also need to consider other factors in making its assessment. Depending on an entity's specific facts and circumstances, other relevant factors might include:

- The purpose of the entity, and whether it was incorporated to perform particular activities (e.g., a special purpose vehicle)
- The entity's business model, and how reliant it is on investing in certain assets or providing financing to customers in order to generate returns
- The entity's regulatory environment, including whether it requires a licence to conduct its operating activities of investing in certain assets or providing financing to customers
- The use, internally or externally, of a subtotal other than a gross profit (e.g., an alternative performance measure), as an important indicator of operating performance
- Whether failing to identify a specified main business activity would prevent the entity from presenting a key measure of operating performance in the operating category as contemplated in IFRS 18.BC90

It is important to note that the factors listed above are just possible inputs into the assessment and are not determinative by themselves.

We expect consistency between an entity's business activities, explained internally and externally in its management reporting, and its identification of a specified main business activity.

## Frequently asked questions

### **Question 3-24: In separate financial statements, where does a parent classify the income and expenses from its investments in subsidiaries accounted for at cost?**

As noted in section 3.2.1.B above, income and expenses from investments in unconsolidated subsidiaries measured at cost are classified in the investing category, unless the entity has a specified main business activity of investing in such assets, as discussed in section 3.3.2.A below. [IFRS 18.53(a), IFRS 18.55(b)].

Parent entities can typically be divided into two broad categories:

- (a) Holding companies with no other substantive activities  
And
- (b) Holding companies with their own operations, in addition to their holdings of investments in subsidiaries.

#### **(a) Holding companies with no other substantive activities**

If a parent's only substantive activity is investing in unconsolidated subsidiaries and this was not identified as a specified main business activity, the entity would have no operating activities.

This situation was considered by the IFRS IC in their March 2026 meeting.<sup>21</sup> In the fact pattern described, the parent holds investments in its subsidiaries, accounted for at cost in accordance with IAS 27, making decisions on the management, acquisition and disposal of those subsidiaries and distributing the returns from these investments to its shareholders. However, the parent has no other substantive activities and is not an investment entity as defined in IFRS 10. In addition, it does not use a subtotal similar to gross profit to explain its operating performance externally or to monitor its operating performance internally, nor does it provide any segmental analysis in its separate financial statements.

The submitter asked whether the parent in this fact pattern has a specified main business activity of investing in unconsolidated subsidiaries for the purposes of its separate financial statements.

The IFRS IC observed that:

- Assessing whether a parent has specified main business activity of investing in unconsolidated subsidiaries for the purposes of its separate financial statements requires judgement and depends on the parent's specific facts and circumstances.
- The absence of the two indicators of a specified main business activity provided by the standard is not determinative. [IFRS 18.B34, IFRS 18.B36].
- The examples of entities that might invest in assets as a main business activity included in IFRS 18 are not exhaustive and, therefore, the absence of a parent entity from this list is not determinative. [IFRS 18.B31].

The IFRS IC concluded that, for the parent described in this fact pattern:

- To have no main business activity is inconsistent with the core premise that the results of an entity's operations must be included in the operating category
- The absence of any other substantive activities is sufficient evidence to conclude that investing in unconsolidated subsidiaries is a main business activity for the purposes of the parent's separate financial statements
- As the investments in unconsolidated subsidiaries are measured at cost in the parent's separate financial statements, the parent classifies the income and expenses from these investments in the operating category [IFRS 18.55(b)]

21 [IFRIC Update](#), March 2026, available on the IFRS Foundation's website.

**(b) Holding companies with their own operations, in addition to their holdings of investments in subsidiaries.**

Holding companies with their own operations, in addition to holding and managing investments in subsidiaries accounted for at cost, also need to consider whether they have a specified main business activity of investing in unconsolidated subsidiaries for the purposes of the parent's separate financial statements.

As noted above, while IFRS 18 includes two indicators to help make this assessment, those may not be relevant indicators for a parent entity in its separate financial statements. Therefore, it is necessary to consider other evidence to make the assessment. For a holding company with its own operations, such evidence might include the assessment of the purpose of the entity, i.e., was the entity established to:

- Shape the composition of the group by acquiring, managing and selling investments in subsidiaries to realise the group's business strategy
- Or
- Primarily conduct its own activities

If the entity assesses that it has a specified main business activity of investing in unconsolidated subsidiaries, classification in the operating category is appropriate.



### How we see it

Current practice (applying IAS 1) is mixed, with income and expenses from investments carried at cost in a parent's separate financial statements classified above and below operating profit.

Therefore, the requirements in IFRS 18 could result in a change in practice, depending on the outcome of the entity's specified main business activity assessment.

It is important to consider the regulatory perspective in the different jurisdictions in which the parent entity operates, as specific requirements may need to be followed.

### 3.3.1.C Specified main business activities disclosures

Entities with a specified main business activity must make certain disclosures to enable users to understand the assessment of their main business activity, as follows: [IFRS 18.51]

#### Extract from IFRS 18

- 51 If an entity:
- (a) invests in assets as a main business activity, it shall disclose that fact.
  - (b) provides financing to customers as a main business activity, it shall disclose that fact.
  - (c) identifies a different outcome from its assessment of whether it invests in assets or provides financing to customers as a main business activity (see paragraph B41), it shall disclose:
    - (i) the fact the outcome of the assessment has changed and the date of the change.
    - (ii) the amount and classification of items of income and expense before and after the date of the change in the outcome of the assessment in the current period and the amount and classification in the prior period for the items for which the classification has changed because of the changed outcome of the assessment, unless it is impracticable to do so. If an entity does not disclose the information because it is impracticable to do so, the entity shall disclose that fact.

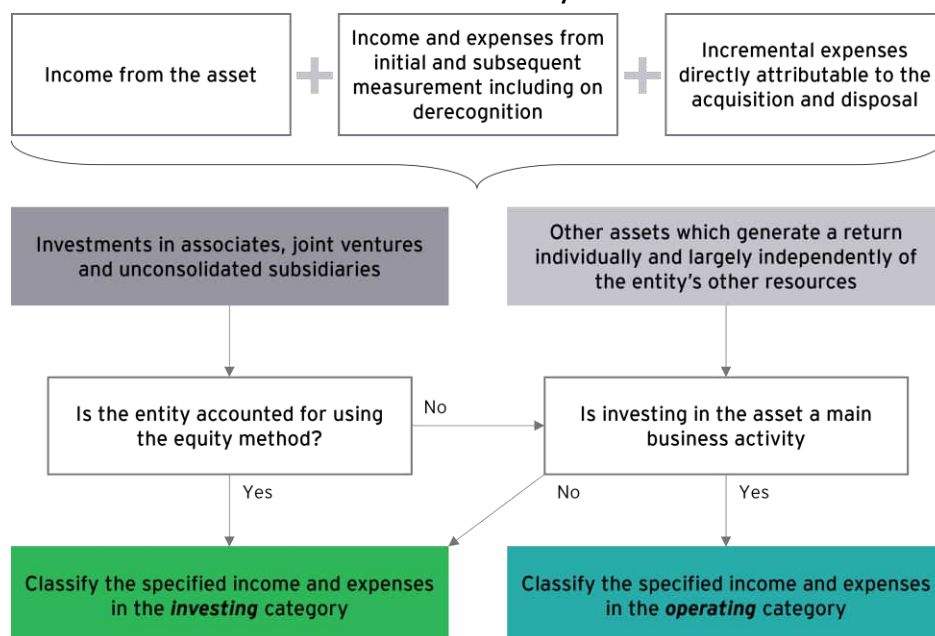
The requirement for entities to disclose whether they invest in assets or provide financing to customers as a main business activity helps users to understand the structure of an entity's statement of financial performance, especially in digital financial reports. To be clear, this disclosure is separate from the requirements to disclose a description of the nature of the entity's operations and its principal activities in IFRS 18.116(b). [IFRS 18.BC100].

As the assessment of an entity's main business activities is a matter of fact, it follows that facts may change, and an assessment performed at the point of the change could lead to a different conclusion. When this is the case, as noted above, an entity will classify and present income and expenses from the change in assessment prospectively and amounts before the change are not reclassified. As this will inevitably cause some disruption to trend analysis, the requirement to disclose the change and information about the effects of the change relating to both the current and prior periods, has been introduced to alleviate the disruption, unless it is impracticable to make the disclosure. [IFRS 18.B41, IFRS 18.51(c), IFRS 18.BC101, IFRS 18.BC102].

### 3.3.2 Investing in assets

The classification requirements for entities with a specified main business activity of investing in assets are shown in the diagram below, adapted from Figure 3.1 in the Illustrative Examples to IFRS 18. [IFRS 18.IE Figure 3.1].

**Figure 3-7: Classification by entities that invest in assets as a main business activity<sup>1</sup>**



<sup>1</sup> Entities are not required to assess whether they have a specified main business activity of investing in cash and cash equivalents. However, there are specific rules for the classification of income and expenses from cash and cash equivalents for entities that have a specified main business activity of investing in *certain financial* assets (see section 3.3.4 below).

Some entities, such as investment property companies, have a main business activity of investing in assets. For such entities, classifying rental income and remeasurements of investment property in the investing category would result in the operating profit subtotal excluding these items and would not faithfully represent the results of their operations. [IFRS 18.BC145].

The investments held by investment property companies typically generate a return individually and largely independently of the entity's other resources. The standard, therefore, specifies that entities that have a specified main business activity of investing in assets classify certain items of income and expense (which they would otherwise classify in the investing category) in the operating category, as follows: [IFRS 18.BC104]

- Income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries accounted for at fair value through profit or loss or at cost (see section 3.3.2.A below) [IFRS 18.55(b)]
- Income and expenses from cash and cash equivalents, for certain entities (see section 3.3.4 below) [IFRS 18.56(a)]

And

- Income and expenses from other assets that generate a return individually and largely independently of the entity's other resources, for example, investment properties (see section 3.3.2.C below) [IFRS 18.58]

The type of income and expenses the standard envisages include rental income, interest, dividends, depreciation, impairment losses and their reversal, fair value gains and losses and income and expenses from the derecognition of the asset or from its classification and remeasurement as held for sale. [IFRS 18.B47].

### Impact on related liabilities

The identification of a main business activity of investing in assets only impacts the classification of specified income and expenses arising from the investment in the asset. If an entity incurs a liability to fund the investment in the asset, the classification of income and expenses from that liability, unless capitalised, follows the general rules for such income and expenses - see section 3.2.2 above. Thus, the requirements for entities with a main business activity of investing in assets do not permit income and expenses from the financing of that main business activity to be classified in the operating category.

Specific requirements apply if the entity also identifies a main business activity of providing financing to customers - see section 3.3.3 below.

#### 3.3.2.A Investments in associates, joint ventures and unconsolidated subsidiaries *not* accounted for applying the equity method

Entities which are assessed as having a specified main business activity of investing in associates, joint ventures and unconsolidated subsidiaries which are *not* equity accounted, are required to classify specified income and expenses in the operating category, as follows: [IFRS 18.54, IFRS 18.55(b), IFRS 18.BC104, IFRS 18.BC106, IFRS 18.BC132]

- Income generated by the assets, e.g., dividend income from equity instruments
- Income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets, e.g., impairment losses and reversals
- Incremental expenses directly attributable to the acquisition and disposal of the assets, e.g., transaction costs and costs to sell the assets - see section 3.2.1.F above

The standard defines 'unconsolidated subsidiaries' as investments in subsidiaries: [IFRS 18.B44]

- 1) Accounted for in separate financial statements using the equity method
  - 2) Held by an investment entity and measured at fair value through profit or loss
  - 3) Accounted for in accordance with IFRS 9
- Or
- 4) Accounted for at cost in separate financial statements

For investments in associates, joint ventures, and unconsolidated subsidiaries which are *not* equity accounted (i.e., those investments accounted for at fair value through profit or loss in accordance with IFRS 9 or accounted for at cost in separate financial statements), the entity must perform the assessment of whether they constitute a main business activity, either by individual asset or by groups of assets with shared characteristics.

If the entity prepares separate financial statements and chooses to use groups of assets to perform the assessment, it must group those assets according to the categories used in choosing the measurement basis for the investments applying IAS 27.10 - see International GAAP, Chapter 9 at section 2 for a discussion on identifying these categories.<sup>22</sup> [IFRS 18.B38, IFRS 18.B43, IFRS 18.BC147].

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22 Available on [ey.com/IFRS](https://ey.com/IFRS).

Income and expenses from equity accounted associates, joint ventures and unconsolidated subsidiaries are required to be classified in the investing category. Therefore, there is no need for an entity to assess whether investing in such assets constitute a specified main business activity. [IFRS 18.55(a), IFRS 18.B38]. See section 3.2.1.B above for more detail.

### 3.3.2.B Cash and cash equivalents

If an entity has a specified main business activity of investing in *financial* assets (other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries) that generate a return individually and largely independently of the entity's other resources, it is required to classify the income and expenses from cash and cash equivalents in the operating category (see section 3.3.4 below). [IFRS 18.56(a)].

### 3.3.2.C Assets which generate a return individually and largely independently of the entity's other resources

If an entity invests as a main business activity in assets that generate a return (either positive or negative) individually and largely independently of the entity's other resources (see section 3.2.1.D above), it is required to classify specified income and expenses in the operating category that otherwise would have been included in the investing category: [IFRS 18.53(c), IFRS 18.54, IFRS 18.58, IFRS 18.BC106]

#### Extract from IFRS 18

- 54 The income and expenses from the assets identified in paragraph 53 that an entity shall classify in the investing category comprise the amounts included in the statement of profit or loss for (see paragraph B47):
- (a) the income generated by the assets;
  - (b) the income and expenses that arise from the initial and subsequent measurement of the assets, including on derecognition of the assets; and
  - (c) the incremental expenses directly attributable to the acquisition and disposal of the assets—for example, transaction costs and costs to sell the assets.
- 58 For the assets specified in paragraph 53(c) (that is, other assets if they generate a return individually and largely independently of the entity's other resources) that an entity invests in as a main business activity (see paragraph B40), the entity shall classify the income and expenses specified in paragraph 54 in the operating category.

For example, real estate companies will need to present rental income in the operating category. Assets such as debt and equity instruments can also generate individual and largely independent returns. If the entity invests in such assets as a main business activity, it is also required to classify the income and expenses from those assets in the operating category. [IFRS 18.58].

The requirement to classify income and expenses in the operating category is only relevant for assets in which the entity invests as a specified main business activity. An entity that invests in investment property as a main business activity might have other investments such as financial assets that do not constitute a specified main business activity. Therefore, income and expenses from those other investments that generate a return individually and largely independently, will be classified in the investing category. [IFRS 18.BC146].

## Frequently asked questions

### **Question 3-25: How is rental income from property, plant and equipment held on an operating lease classified in profit or loss by a lessor?**

This Question is a continuation of Question 3-6 in section 3.2.1.E above. While a lessor without a specified main business activity would classify this type of income or expense in investing if the leased asset generated a return individually and largely independently of the entity's other operations, a lessor with a specified main business activity of investing in such assets will classify the rental income in the operating category.

### **Question 3-26: How is finance income on the net investment in a finance lease classified in profit or loss?**

This Question is a continuation of Question 3-8 in section 3.2.1.E above. As noted in that question, the finance income from the net investment in a finance lease is classified in the investing category in certain cases. However, if the lessor has a specified main business activity of providing financing to customers via finance leases, [IFRS 18.B32], the net investment in the finance lease does not, in the context of the business model, generate largely independent returns and the finance income must be classified in the operating category. This is because the net investment in the finance lease arises from the service of providing financing which the entity does in combination with other resources. [IFRS 18.BC143].

### **Question 3-27: Where is the selling profit or loss on recognition of a net investment in a finance lease classified?**

This Question is a continuation of Question 3-19 in section 3.2.6.A above. Applying IFRS 16, on entering into a finance lease, a lessor derecognises the asset, which is the subject of the lease, recognises the net investment in the lease, and records the resulting selling profit or loss. IFRS 18 requires the profit or loss on disposal of an item to be classified in the same category as the income and expenses arising on that item directly before derecognition. [IFRS 18.B60]. Therefore, if a lessor, with a main business activity of investing in investment properties, entered into a finance lease over one of its investment properties, it would recognise the selling profit or loss in the operating category.

### **Question 3-28: How are transaction costs incurred in acquiring an equity investment (without control, joint control or significant influence) in other entities classified in profit or loss?**

This Question is a continuation of Question 3-9 in section 3.2.1.F above. An entity that acquires an equity investment (i.e., without control, joint control or significant influence) may incur transaction costs which are included in profit or loss for the period. In such a case, an entity that has a main business activity of investing in equity instruments classifies the transaction costs relating to that acquisition in the operating category.

### **Question 3-29: How are expenses related to holding investment property classified in profit or loss?**

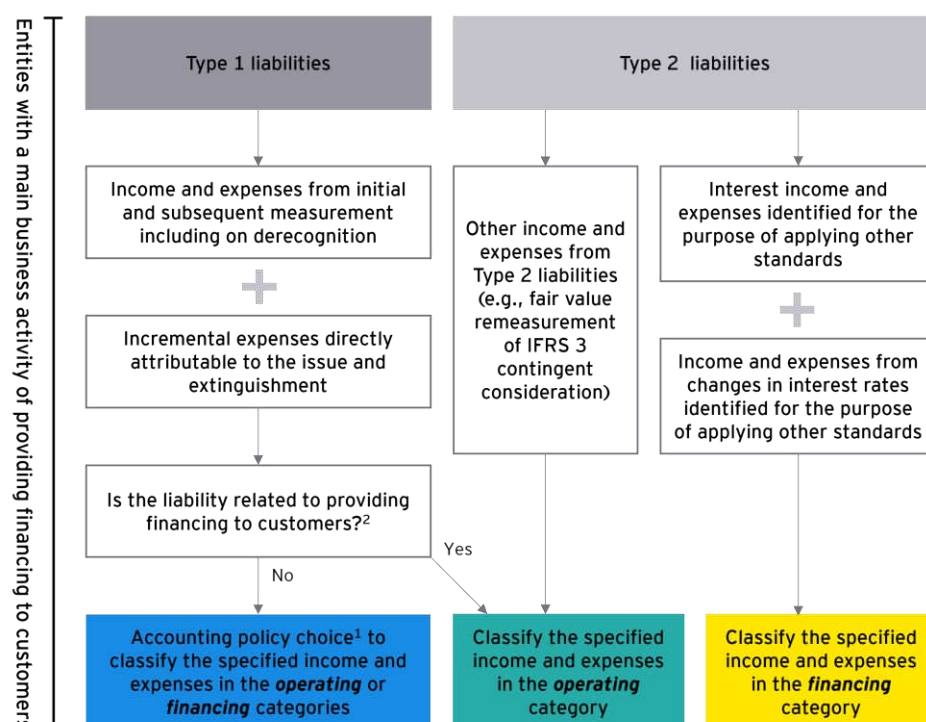
See the response to Question 3-1 in section 3.2.1.A above. Since these types of expenditure do not fall within the categories of expenditure listed in IFRS 18.54, expenses that arise from holding the investment, for example, maintenance expenses or rates and taxes levied on an investment property will be classified in the operating category.

### 3.3.3 Providing financing to customers

#### 3.3.3.A Summary of the requirements

The following diagram, based on Figure 3.2 in the Illustrative Examples to IFRS 18, summarises the requirements for Type 1 and Type 2 liabilities (see section 3.2.2 above) held by entities with a specified main business activity of providing financing to customers: [IFRS 18.IE Figure 3.2]

**Figure 3-8: Classification of income and expense related to liabilities of an entity with a specified main business activity of providing financing to customers**



1 The choice of accounting policy must be consistent (where applicable) with that made for the classification of income and expenses from cash and cash equivalents (see section 3.3.4 below).

2 If the entity is unable distinguish between its Type 1 liabilities that are related to providing financing to customers and those that are not, it must apply the accounting policy 'choice' to classify income and expenses from such liabilities in the operating category.

#### 3.3.3.B Classification of income and expenses from Type 1 liabilities

There are specific requirements for the classification of income and expenses from Type 1 liabilities for entities which provide financing to customers as a main business activity. Such entities will need to determine which of their Type 1 liabilities (see section 3.2.2.A above) relate to their main business activity of providing financing to customers, as the following requirements apply:

- Income and expenses arising from Type 1 liabilities that relate to providing financing to customers will be classified in the operating category [IFRS 18.65(a)(i)]

Whereas

- Income and expenses from Type 1 liabilities that do *not* relate to providing financing to customers could be classified, as an accounting policy choice, either in the operating or in the financing category (see section 3.3.3.C below) [IFRS 18.65(a)(ii)]

There are specific requirements for the classification of income and expenses for entities which provide financing to customers as a main business activity

These requirements are needed because the difference between the interest revenue from that main business activity and the interest expense incurred to finance that activity is an important measure of the entity's operating performance and without them, the interest expense would be classified in the financing category, thus preventing presentation of that measure. [IFRS 18.BC180]. This accounting policy choice arises because it might not be possible for certain entities, for example, those with a central treasury function, to distinguish easily between income and expenses that relate to the provision of finance to customers, without undue cost and effort. [IFRS 18.BC181-BC183]. If an entity cannot distinguish between its Type 1 liabilities that relate to its main business activity of providing financing to customers and those that do not, income and expenses from such liabilities are required to be classified in the operating category (essentially applying the accounting policy choice described above and being required to 'choose' the operating category for all such liabilities). [IFRS 18.66, IFRS 18.BC184].



### How we see it

We believe the requirement in IFRS 18.66 is an exception and applies only to those Type 1 liabilities where an entity is unable to distinguish whether they relate to its main business activity of providing financing to customers. It does not override the election made by an entity for Type 1 liabilities where it is clear they are unrelated to providing financing to customers.

#### 3.3.3.C Accounting policy for Type 1 liabilities unrelated to providing financing

Income and expenses<sup>23</sup> from Type 1 liabilities unrelated to providing financing to customers could be classified, as an accounting policy choice, either in the operating or in the financing category. The accounting policy choice made must be consistent with the choice made for classifying income and expenses from cash and cash equivalents, addressed in section 3.3.4 below and is applicable only to those entities which have a main business activity of providing financing to customers. [IFRS 18.65(a)(ii)].

It is important to note that an entity with a main business activity of providing financing to customers always classifies income and expenses from Type 1 liabilities that relate to providing financing to customers in the operating category. The accounting policy choice only relates to the income and expenses from Type 1 liabilities that do *not* relate to providing financing to customers. [IFRS 18.BC184].



#### Illustration 3-9: Determining which Type 1 liabilities are in the scope of the accounting policy choice in IFRS 18.65

Bank B, with a main business activity of providing financing to customers, entered into three Type 1 liabilities in the current period:

- Loan 1 - Entered into specifically to on-lend that financing to customers.
- Loan 2 - Taken out to fund the bank's own operations (e.g., to finance a business acquisition) as opposed to providing financing to customers.
- Loan 3 - A general purpose fixed rate loan entered into by the central treasury function of the bank. These funds have been intermingled with the bank's own excess cash and can be used by any part of the bank's business, including the lending operations. As a result, the bank cannot identify whether the liability solely relates to the provision of financing to customers.

<sup>23</sup> Income and expenses arising from the initial recognition and subsequent measurement, including derecognition, of Type 1 liabilities and the incremental expenses directly attributable to the issue and extinguishment of such liabilities. [IFRS 18.60].

The bank applies the accounting policy choice in IFRS 18.65 to Loan 2 only. This is because the accounting policy only applies to liabilities unrelated to providing financing to customers. [IFRS 18.BC184].

The income and expenses from Loan 1 and Loan 3 must be classified in the operating category by Bank B since:

- Income and expenses from liabilities that relate to a main business activity of providing financing to customers (i.e., Loan 1) are always classified in the operating category.

And

- When an entity cannot identify whether the liability relates solely to its main business activity of providing financing to customers (i.e., Loan 3), IFRS 18.66 requires the entity to 'choose' an operating classification, effectively removing the accounting policy choice.

Therefore, there is no optionality for these two loans.



### How we see it

The policy choices available to entities whose main business activity is providing financing to customers provide practical options for preparers who are unable to distinguish easily between income and expenses that relate to the provision of finance to customers.

However, the availability of a policy choice is likely to create diversity in practice, which will result in some loss of comparability between similar entities.

#### 3.3.3.D Classification of income and expenses from Type 2 liabilities

An entity with a main business activity of providing financing to customers treats Type 2 liabilities (see section 3.2.2.B above) in the same way as an entity without such a main business activity - i.e., the classification requirements for Type 2 liabilities do not vary according to whether an entity has either or both of the specified main business activities. Thus, a financial institution, a real estate investment company and a manufacturer will all treat their Type 2 liabilities in the same way.

Therefore, if interest income and expenses are identified for the purposes of applying other requirements in IFRS accounting standards or arise from changes in interest rates for the purposes of applying other requirements in IFRS accounting standards, entities are required to classify them in the financing category. [IFRS 18.65(b)(i), IFRS 18.BC187]. If the income and expenses are not interest income and expenses, they are classified as operating. [IFRS 18.65(b)(ii)].

This could change existing practice for some banks, as those institutions might currently classify interest expenses on leases or defined benefit liabilities in net interest income, but the requirements will ensure consistent presentation for all entities. [IFRS 18.BC188].

### 3.3.3.E Application of the guidance

An entity with a main business activity of providing financing to customers is required to: [IFRS 18.65, IFRS 18.66]

- (a) Classify all the income and expenses from *all* Type 1 liabilities related to providing financing to customers in the operating category
- (b) Classify income and expenses from all Type 1 liabilities unrelated to providing financing to customers in either the operating or financing category, based on the chosen policy election (see section 3.3.3.C above)
- (c) Classify all the income and expense from all Type 1 liabilities where the entity cannot distinguish whether those liabilities relate to providing financing to customers in the operating category, i.e., classify them in the same category as in (a) above (see section 3.3.3.B above)

The following Illustration is a simple example of the application of the requirements. It shows the appropriate classification of income and expenses arising from a range of liabilities for an entity with a main business activity of providing financing to customers.



#### **Illustration 3-10: Example of classification for an entity with a main business activity of providing financing to customers**

Entity R, an automotive retailer, provides financing to customers as a main business activity to enable customers to buy Entity R's products. Entity R borrows from the bank to finance the loans it provides to its customers on deferred terms. Entity R also has the following liabilities:

- Lease liabilities (relating to its showrooms)
- A provision for litigation (which it expects to settle in three years and for which the discounting under IAS 37 is material)
- A liability for contingent consideration (relating to a business acquisition made in the prior year and payable in two years)
- A separate bank borrowing (to fund the business acquisition it made in the prior year)

#### ***Bank borrowings relate to providing financing to customers***

The bank borrowings related to the provision of financing to customers are Type 1 liabilities (since Entity R receives finance in the form of cash and will return cash in exchange at a later date). As Entity R has a main business activity of providing financing to customers, the interest payable on those loans is classified in the operating category.

#### ***Lease liabilities***

The lease liabilities are Type 2 liabilities (since Entity R receives a right of use asset, rather than finance in the form of cash or the extinguishment of a liability from these transactions) and it records interest expense on its lease liabilities as a result of applying IFRS 16. This expense is classified in the financing category.

#### ***Provision for litigation***

The litigation provision is a Type 2 liability (since Entity R does not receive finance from this transaction). Entity R has discounted the provision in accordance with IAS 37, therefore, the unwinding of the discount is classified in the financing category. Remeasurements of the provision under IAS 37 are, however, classified in the operating category.

#### ***Contingent consideration***

The contingent consideration liability is a Type 2 liability (since Entity R receives assets and liabilities, not finance in the form of cash from the transaction). The remeasurement of the fair value of the liability is neither 'interest income or expense', nor does it result from a change in interest rates. Therefore, this remeasurement is classified in the operating category.

### **Bank borrowing for business acquisition**

The loan for the business acquisition is a Type 1 liability (since Entity R receives finance in the form of cash and will return, in exchange, cash at a later date), unrelated to the provision of financing to customers. Therefore, the entity can classify the income and expenses either in the operating or in the financing category based on the accounting policy choice discussed above.

The choice must be consistent with the choice made for classifying income and expenses from cash and cash equivalents, addressed in section 3.3.4 below.

## **Frequently asked questions**

### **Question 3-30: How is the interest expense on a contract liability (with a significant financing component) classified in profit or loss?**

See the response to Question 3-11 in section 3.2.2.E above.

The interest expense recognised on a contract liability with a significant financing component is given as an example of an expense arising from a Type 2 liability that must be classified in the financing category.

*[IFRS 18.B54(b)]*. And as noted above, for a Type 2 liability, the classification of interest expenses on a contract liability is unaffected by whether an entity has a main business activity or not.

### **Question 3-31: Can income and expenses from a single Type 1 liability be allocated between the operating and financing categories?**

Entities with a main business activity of providing financing to customers (e.g., a bank) might choose, applying the accounting policy choice in IFRS 18.65, to present the income and expenses from Type 1 liabilities unrelated to providing financing to customers in the financing category.

This raises the question of whether such an entity would be allowed to allocate the interest expense on a single Type 1 liability that partially related to providing financing to customers between the operating and financing categories in the statement of profit or loss?

For example, a bank enters into a loan liability for CU100m and can determine, in a non-arbitrary way, that CU60m of the loan directly relates to its main business activity of providing financing to customers and the remaining CU40m relates to raising finance to invest in other assets (e.g., equity instruments). The bank has chosen, applying IFRS 18.65, to present the interest on Type 1 liabilities unrelated to providing financing to customers in the financing category. Can the relevant portion of the income and expenses arising from this single liability which are unrelated to providing financing to customers (i.e., the interest on the CU40m) be classified in the financing category?



### **How we see it**

We believe that if the portion of the loan relating to providing financing to customers can be identified in a non-arbitrary way, it is acceptable for the entity to apply its chosen IFRS 18.65 accounting policy choice to the income and expenses from the remaining portion of the loan and so classify those income and expenses unrelated to providing financing to customers in the financing category.

Making such an allocation in a non-arbitrary way could be challenging in practice and will require the use of judgement based on the particular facts and circumstances. Where an entity is unable to make that judgement in a robust way, the income and expense on the entire loan must be classified in the operating category.

*[IFRS 18.66]*.

**Question 3-32: Do the accounting policy choices in IFRS 18.56 and IFRS 18.65 apply to all activities of a conglomerate with a specified main business activity of providing financing to customers?**

An entity with a main business activity of providing financing to customers has the option to classify the income and expenses on all Type 1 liabilities in the operating category, regardless of whether these are related to that specified main business activity. [IFRS 18.65(a)(ii)]. Such entities also have a similar option for the classification of the income and expenses from cash and cash equivalents unrelated to providing financing to customers (discussed in section 3.3.4 below), with the stipulation that these two accounting policies must be consistent. [IFRS 18.56(b)(ii)].

This raises the question of whether these related accounting policy choices (reserved for entities with a main business activity of providing financing to customers) also apply to the other Type 1 liabilities (or cash and cash equivalents) in the consolidated accounts of a conglomerate, when those other liabilities (or cash and cash equivalents) do not involve the provision of financing to customers?



### How we see it

In our view, the accounting policy choice in IFRS 18.65 is applied at the reporting entity level, i.e., at the level of the consolidated accounts for the conglomerate. This means that the chosen policy applies to all the Type 1 liabilities in the group unrelated to providing financing to customers, irrespective of their origin within the group.

The same applies to the accounting policy choice in IFRS 18.56.



### Illustration 3-11: Type 1 liabilities of a conglomerate unrelated to providing financing to customers

A conglomerate with both an insurance subsidiary and banking subsidiary identifies at a group level a main business activity of providing financing to customers. However, the insurance subsidiary does not identify this main business activity in its individual financial statements.

Once an accounting policy has been selected (e.g., classification in the operating category), it is applied to all the Type 1 liabilities and cash and cash equivalents of the group that are unrelated to providing financing to customers. Therefore, external loans taken out by the insurance subsidiary, for the purpose of making a business acquisition, would equally be subject to the accounting policy choice (i.e., classified in the operating category in the example above) despite that subsidiary not being eligible to apply such an accounting policy choice to the Type 1 liabilities in its individual financial statements.

**Question 3-33: Can the accounting policy choice in IFRS 18.65 be applied on a liability-by-liability basis to Type 1 liabilities not related to providing financing to customers?**

As IFRS 18 requires this election to be consistent with the election made under the related accounting policy for cash and cash equivalents under IFRS 18.56 (discussed in section 3.3.4 below), it is clear that the accounting policy choice in IFRS 18.65 applies to **all** liabilities which are not related to providing financing to customers. [IFRS 18.56(b)(ii), IFRS 18.65(a)(ii)]. It is not a liability-by-liability election.

However, where an entity is unable to distinguish between Type 1 liabilities related to providing financing to customers and those that do not, the exception in IFRS 18.66 (discussed in section 3.3.3.B above) applies - i.e., income and expenses from such liabilities are required to be classified in the operating category.

**Question 3-34: Where does an entity with a main business activity of providing financing to customers via leases classify the interest expense on a head lease?**

Some entities routinely provide financing to their customers in the form of finance leases. Such entities may lease the underlying assets from a head lessor, applying IFRS 16 to both the sub- and head-leases.

If such an entity identifies a main business activity of providing financing to customers via leases, [IFRS 18.B32(c)], it would classify the interest income from the net investment in the sub-lease in the operating category, as explained in Question 3-26 in section 3.3.2.C above. In such cases, the question arises as to whether the entity could also classify the interest expense on the head lease, recognised under IFRS 16, in the operating category.

Lease liabilities are listed in IFRS 18 as an example of a Type 2 liability for which the interest expense recognised under IFRS 16, is always classified in the financing category. [IFRS 18.B53(c), IFRS 18.B54(c)]. As noted in section 3.3.3.D above, the classification requirements for Type 2 liabilities do not vary according to whether an entity has a specified main business activity. [IFRS 18.BC187]. This means that the interest expense on the head lease will be recognised in a different category in the statement of profit or loss compared to the income arising on the sub-lease. This is the case even if the net interest income is a key performance measure for an entity with a main business activity of providing financing via leases.

[IFRS 18.BC198, IFRS 18.BC199].

### 3.3.3.F Classification of income and expenses from assets

Entities with a specified main business activity of providing financing to customers are required to classify the income and expenses from some or all of their cash and cash equivalents in the operating category (see section 3.3.4 below). [IFRS 18.56(b)].

In principle, the general requirements in IFRS 18 for the classification of income and expenses from other assets apply to an entity with a main business activity of providing financing to customers - see section 3.2.1 above. However, in practice, many entities that provide financing to customers (e.g., banks) also invest in financial assets as a main business activity. Therefore, the specific guidance for the classification of income and expenses from such assets is also likely to be relevant - see section 3.3.2 above. [IFRS 18.BC95]. In addition, it is worth noting that loans to customers, when the entity provides financing to customers as a main business activity, are an example of an asset which does not generate largely independent returns (see section 3.2.1.E above). [IFRS 18.B48(c), IFRS 18.BC143].

### 3.3.3.G Profit or loss before financing and income tax subtotal

As noted in section 3.2.1.H above, profit or loss before financing and income tax is the second subtotal introduced by IFRS 18 and comprises operating profit or loss and all income and expenses classified in the investing category. [IFRS 18.71]. Its role is to facilitate the analysis of an entity's performance, independently of how it is financed and to improve comparability between entities. [IFRS 18.BC148, IFRS 18.BC149].

An entity that provides financing to customers as a main business activity is prohibited from presenting this subtotal if, as an accounting policy choice, it classifies in the operating category all income and expenses from Type 1 liabilities (see section 3.3.3.B above) that do not relate to the provision of financing to customers. In other words, this subtotal is not permitted when all income and expenses from liabilities arising from only the raising of finance have been presented in the operating category and some of that income and expenses does *not* relate to providing finance to customers.

Nonetheless, in these cases, consideration must be given to whether an additional subtotal after the investing category and before the financing category is required to provide a useful structured summary of an entity's income and expenses. If an entity were to present an additional subtotal, it must label the subtotal with a name that accurately describes it. For example, the label 'profit before financing' would be misleading in the case described above, as there could be financing income and expenses, unrelated to providing financing to customers, included in operating profit, and is consequently prohibited by IFRS 18. [IFRS 18.73, IFRS 18.74, IFRS 18.BC189, IFRS 18.BC190].



#### How we see it

The standard requires precision in the labelling of subtotals and totals, but does not restrict the number of subtotals which can be presented, provided that they contribute to a useful structured summary. Entities need to carefully consider their choice of label for any additional subtotal presented, in order to faithfully represent the items included in that subtotal.

### 3.3.3.H Hybrid contracts containing a host liability

There are specific requirements for hybrid contracts held by entities with a main business activity of providing financing to customers and classification depends on whether the embedded derivative is separated from the host contract. [IFRS 18.B56, IFRS 18.BC171-BC178].

#### Embedded derivative is separated

If the embedded derivative is separated, income and expenses arising from the host liability will be classified in accordance with the requirements for classifying a similar liability that is not a host in a hybrid contract. An entity with a main business activity of providing financing to customers will, therefore, need to assess whether the separated host liability is a Type 1 or Type 2 liability and follow the guidance in section 3.3.3 above. [IFRS 18.B56(a)(i), IFRS 18.BC171].

The separated embedded derivative is classified in accordance with the requirements for similar stand-alone derivatives, addressed in section 3.2.8 above, unless the derivative is not used to manage identified risk, in which case the guidance in section 3.3.3.I below applies. [IFRS 18.B56(a)(ii), IFRS 18.BC171].

### Embedded derivative is *not* separated

In cases where the embedded derivative is not separated, IFRS 9 treats the hybrid instrument as a single unit of account and measures the combined liability in its entirety. [IFRS 18.BC170].

Therefore, a hybrid contract (no separation) that arises from a transaction that involves only the raising of finance (i.e., a Type 1 liability hybrid) is essentially treated as a Type 1 liability for classification purposes under IFRS 18, despite the presence of the embedded derivative suggesting that another activity is present. [IFRS 18.B56(b), IFRS 18.BC173(a)].

Therefore, for a Type 1 liability hybrid (no separation) that relates to providing financing to customers, an entity with a main business activity of providing financing to customers classifies all such income and expenses in the operating category. [IFRS 18.B56(b), IFRS 18.BC173]. If the Type 1 liability hybrid does not relate to providing financing to customers, an entity with a main business activity of providing financing to customers has an accounting policy choice to classify the income and expenses in the operating or in the financing category. [IFRS 18.B56(b), IFRS 18.65(a)(ii)]. This treatment is consistent with the treatment of non-hybrid Type 1 liabilities which do not relate to the provision of financing to customers under the specified main business activity requirements.

The classification of the income and expenses on a hybrid contract (no separation) which do not arise from a transaction that involves only the raising of finance (i.e., a Type 2 liability hybrid), depends on the type of contract: [IFRS 18.BC173, IFRS 18.BC174]

- For a Type 2 liability hybrid contract (no separation) with a host liability in the scope of IFRS 9 and measured at amortised cost, the Board decided to require a treatment similar to that of a Type 1, rather than a Type 2 liability. [IFRS 18.BC176]. That is, all income and expenses arising from the initial recognition and subsequent measurement, including on derecognition, of such a hybrid contract is classified in the financing category, rather than just separating out the interest element. [IFRS 18.60, IFRS 18.B56(c)(i)].

The IASB felt the cost of separating interest income and expenses from other income and expenses arising from remeasuring such an amortised cost liability would outweigh the benefit. [IFRS 18.BC175-IFRS 18.BC176].

An example of such a Type 2 liability hybrid is a trade payable with extended credit terms and an early prepayment option. This gives rise to interest income and expenses related to the extended credit terms, but also potentially income and expenses from remeasurement, triggered by changes in expectations in future cash flows, as expectations about the use of the prepayment option change. [IFRS 18.BC175].

Unlike a Type 1 liability, these hybrid contracts do not arise from transactions that involve only the raising of finance.

Therefore, the requirement to classify income and expenses on Type 1 liabilities for entities with a main business activity of providing finance to customers does not apply, neither does the accounting policy choice discussed in section 3.3.3.C above, as interest income and expenses from a Type 2 liability are never eligible to be classified in the operating category. [IFRS 18.B59, IFRS 18.BC177].

- For a hybrid insurance contract in the scope of IFRS 17, income and expenses from the hybrid contract, including insurance finance income and expenses will be classified in the operating category. Also see section 3.3.5.B below. [IFRS 18.B56(c)(ii), IFRS 18.BC179(b)].

- For all other Type 2 liability hybrid contracts: [IFRS 18.B56(c)(iii)]
  - Interest income and expenses (including from interest rate changes) identified for the purposes of applying other requirements in IFRS accounting standards, will be classified in the financing category.
  - While
  - All other income and expenses will be classified in the operating category.

In summary, all other Type 2 liability hybrids are treated in the same way as any other Type 2 liability. [IFRS 18.BC173(b)].

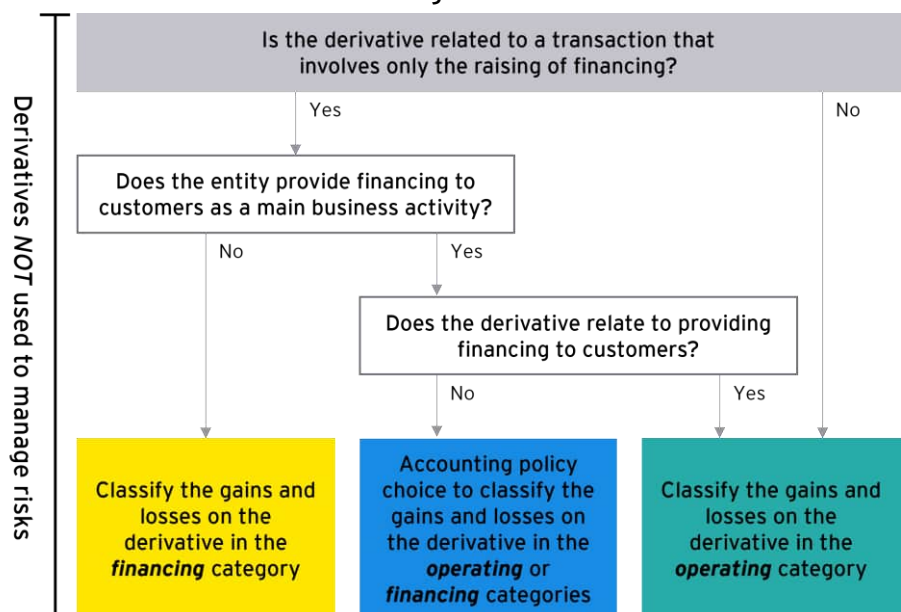
Note that the means of assessing whether the contract is hybrid is not relevant, so this guidance must be followed for all hybrid contracts in which the embedded derivative is not separated, irrespective of whether such contracts failed to meet the requirements of IFRS 9.4.3.3 for separation or whether the whole instrument was designated at fair value through profit or loss, applying IFRS 9.4.3.5. [IFRS 18.B57].

The treatment for hybrid contracts measured at amortised cost is discussed in the first bullet above. However, as noted, hybrid contracts that arise from transactions combining financing with another activity (i.e., Type 2 liabilities) may also be designated at fair value through profit or loss as an entire contract under IFRS 9.4.3.5. Generally, income and expenses on this type of hybrid contract are classified in the operating category because the interest expense is not separately recognised from changes in fair value for the purposes of applying other requirements in IFRS accounting standards, i.e., IFRS 9, and therefore, cannot be classified in the financing category. [IFRS 18.BC178].

### 3.3.3.1 Income and expenses on derivatives *not* used to manage exposure to identified risks

The following diagram, based on Figure 5 in the Illustrative Examples to IFRS 18, summarises the requirements for classifying derivatives *not* used to manage exposure to identified risks. [IFRS 18.IE Figure 5].

**Figure 3-9: Classification of gains and losses on derivatives NOT used to manage risks**



The classification of derivatives that are not used to manage identified risk depends on whether: [IFRS 18.B73]

- They relate to transactions that involve only the raising of financing
  - Whether the entity has a main business activity of providing financing to customers
- And
- Whether the derivative itself relates to providing financing to customers

If an entity provides financing to customers as a main business activity, income and expenses from derivatives which are *not* used to manage exposure to identified risks are classified, as follows:

- **Operating category**
  - If the derivative is *not* related to a transaction that involves only the raising of finance [IFRS 18.B73(b)]

Or

  - If the derivative *is* related to a transaction that involves only the raising of finance and the derivative itself relates to providing finance to customers [IFRS 18.B59, IFRS 18.B73(a)]
- **Operating or financing category**  
(i.e., the accounting policy choice discussed in section 3.3.3.C above)
  - If the derivative *is* related to a transaction that involves only the raising of finance but the derivative itself does *not* relate to providing financing to customers [IFRS 18.B59, IFRS 18.B73(a)]

If an entity does not provide financing to customers as a main business activity, the guidance in section 3.2.8.D applies.

### 3.3.3.J Derecognition

When derecognising a liability, an entity must apply the same classification requirements to classify income and expense from derecognition as it would when recognising a liability. Therefore, an entity with a main business activity of providing financing to customers will need to determine if it is a Type 1 or Type 2 liability and apply the guidance discussed in section 3.3.3 above. For example, such an entity will classify any gain or loss on the prepayment of a Type 1 loan, related to providing financing to customers, in the operating category. However, income and expenses from the derecognition of a Type 1 loan *not* related to providing financing to customers will be classified according to the accounting policy choice the entity has made and thus may be classified in either the operating or the financing category. [IFRS 18.B61].

### 3.3.3.K Foreign exchange differences

The basic principle for classifying foreign exchange differences (i.e., that they follow the category in which the related income and expenses have been classified) equally applies to entities that provide financing to customers as a main business activity, including the undue cost or effort exemption. If the latter applies, all such differences are classified in the operating category. [IFRS 18.B65, IFRS 18.B68, IFRS 18.BC207-BC208]. For example, foreign exchange differences arising from a Type 1 debt instrument liability, which is denominated in a foreign currency and is related to providing financing to customers, will also be classified in the operating category. [IFRS 18.B66].

### 3.3.4 Income and expenses from cash and cash equivalents

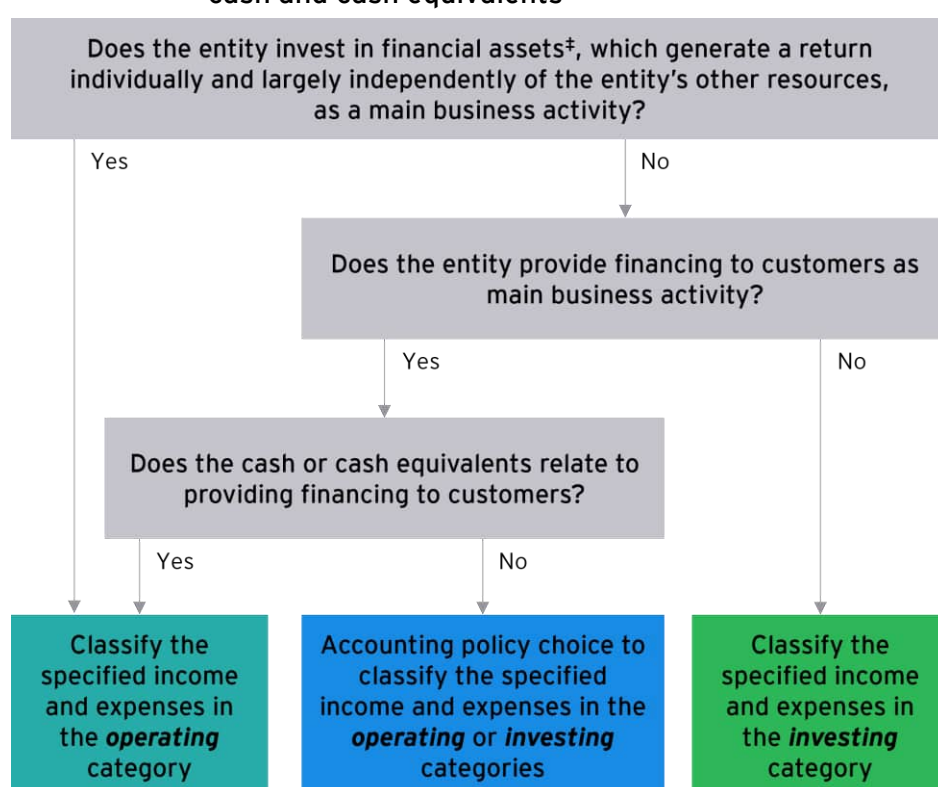
Most entities do not need to assess whether they invest in cash and cash equivalents as a main business activity, as the standard requires specified income and expenses (see section 3.2.1.A above) from cash and cash equivalents to be classified in the investing category.

[IFRS 18.53(b), IFRS 18.B39].

However, for entities with specified main business activities of investing in financial assets in the scope of IFRS 18.53(c) (i.e., financial assets other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries) or providing finance to customers, the requirements are different. The diagram below, based on Figure 3.3 in the Illustrative Examples to IFRS 18, sets out the various permutations.

[IFRS 18.IE Figure 3.3].

**Figure 3-10: Classification of specified income and expenses from cash and cash equivalents**



‡ Other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries

#### Investing in *financial* assets as a main business activity

If an entity invests as a main business activity in financial assets (other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries) which generate a return individually and largely independently of the entity's other resources, such as debt instruments, it is required to classify all the income and expenses from cash and cash equivalents in the operating category. This is relevant for financial institutions such as banks, asset managers and insurers. [IFRS 18.56(a), IFRS 18.BC137, IFRS 18.BC138].

#### Cash and cash equivalents related to providing financing to customers

If an entity provides financing to customers as a main business activity and the cash and cash equivalents relate to the provision of finance (for example, cash held for regulatory purposes), it classifies all the income and expenses from those cash and cash equivalents in the operating category.

[IFRS 18.56(b)(i)].

### Cash and cash equivalents *unrelated* to providing financing to customers

If an entity provides financing to customers as a main business activity and the cash and cash equivalents do *not* relate to the provision of finance, the entity has an accounting policy choice to classify the specified income and expenses arising from these cash and cash equivalents in the operating or investing categories. This choice must be consistent with the similar accounting policy choice that exists for income and expenses arising from liabilities that do *not* relate to financing to customers, addressed in section 3.3.3.C above. The outcome of this is that all income and expenses from the portion of cash and cash equivalents relating to the provision of financing to customers as a main business activity will always be classified in the operating category, whereas income and expenses on the portion that does *not* relate to the provision of financing could be classified in the investing category.

[IFRS 18.56(b)(ii), IFRS 18.65(a)(ii), IFRS 18.BC139-BC141].

If a reporting entity cannot distinguish between income and expenses from cash and cash equivalents related to providing finance to customers and from that unrelated, it is required (effectively applying the accounting policy choice above) to classify all income and expenses from all its cash and cash equivalents in the operating category. [IFRS 18.57, IFRS 18.BC141].

### Frequently asked questions

#### Question 3-35: How are income and expenses from cash and cash equivalents held by a conglomerate classified in profit or loss?

Many groups have multiple main business activities. However, IFRS 18 only requires a reporting entity (e.g., a consolidated group) to assess whether it has either, or both, specified main business activities.

[IFRS 18.B30]. In a group for whom investing in *financial* assets, within the scope of IFRS 18.53(c), is a specified main business activity, IFRS 18 requires income and expenses from cash and cash equivalents to be classified in the operating category. [IFRS 18.56(a)]. The question arises as to whether the income and expenses from cash and cash equivalents held in other parts of the group which are not involved in the specified main business activities are also required to be classified in the operating category.



#### How we see it

In our view, where a group has identified a main business activity of investing in *financial* assets, the income and expenses from all cash and cash equivalents held by the group must be classified in the operating category.

#### Question 3-36: Do the 'consistent accounting policy' requirements in IFRS 18.65(a)(ii) apply to an entity that invests in *financial* assets as a main business activity and has a main business activity of providing financing to customers?

An entity with a main business activity of providing financing to customers has an accounting policy choice to classify the income and expenses on Type 1 liabilities unrelated to providing financing to customers in either the operating or the financing category (see section 3.3.3.C above). This accounting policy must be consistent with the IFRS 18.56(b) accounting policy choice made for cash and cash equivalents, discussed in the section above.

However, as noted in Question 3-35 above, a conglomerate that identifies a main business activity of investing in **financial** assets must classify the income and expenses from all its cash and cash equivalents in the operating category. This is a requirement of IFRS 18.56(a), rather than the accounting policy choice offered by IFRS 18.56(b).

Therefore, since there is no IFRS 18.56(b) accounting policy to be consistent with, a conglomerate with a main business activity of both investing in **financial** assets and providing financing to customer is eligible to elect an accounting policy for the income and expenses from its Type 1 liabilities which are not related to providing financing to customers, independent of how its cash and cash equivalents are classified.

**Question 3-37: How is interest income on cash and cash equivalents that is received as an advanced payment from a customer classified in profit or loss?**

This Question is a continuation of Question 3-5 in section 3.2.1.C above.

An entity with a main business activity of investing in financial assets will classify income and expenses from cash and cash equivalents in the operating category. This will include cash received as an advance from a customer under a revenue contract with a significant financing component.

**Question 3-38: Do the accounting policy choices in IFRS 18.56 and IFRS 18.65 apply to all activities of a conglomerate with a main business activity of providing financing to customers?**

See the response to Question 3-32 in section 3.3.3.E above.

### 3.3.5 Entities that issue insurance contracts

While issuing insurance contracts is not a specified main business activity, IFRS 18 provides specific guidance for insurers about equity method investees and the classification of income and expenses that result from insurance contracts. These are discussed in more detail in the following sub-sections.



#### How we see it

Insurance entities typically invest in assets as part of their operations and some provide financing to customers. Therefore, insurers need to assess whether they have a specified main business activity as discussed in section 3.3.1 above.

#### Frequently asked questions

**Question 3-39: In which category is interest income from a loan to a customer classified by an insurer with only a specified main business activity of investing in assets?**

Insurance finance income and expenses included in profit or loss for the period applying IFRS 17 will be classified in the operating category applying IFRS 18.64(b). However, insurance finance income or expenses do not include income or expenses related to financial assets or liabilities within the scope of IFRS 9.<sup>24</sup> If a loan to a customer, such as a policyholder loan, is within the scope of IFRS 9, the general requirements in IFRS 18 will apply.

24 See International GAAP® 2026, Chapter 51 at section 15.3. Available on [ey.com/IFRS](https://ey.com/IFRS).

For an insurer without a main business activity of providing financing to customers, the classification of loans which are in the scope of IFRS 9, will depend on whether those loans:

- Generate a return individually and largely independently of the entity's other resources (see section 3.2.1.E above)
- And, if so,
- Are held as part of the insurer's main business activity of investing in assets

Income and expenses from such loans that do *not* generate both individual and largely independent returns are classified in the operating category. Income and expenses from such loans that generate returns individually and largely independently are classified in the investing category, unless the insurer holds the loans as part of a main business activity of investing in assets. In this case, the income and expenses must be classified in the operating category.

A different classification could also apply to insurers who also have a main business activity of providing financing to customers, see section 3.3.3.F above.

### 3.3.5.A Equity method investees held by insurers

The Board concluded that the reasons for excluding equity accounted investments from the operating category, discussed in section 3.2.1.B above, also applied to entities with specified main business activities. [IFRS 18.BC121]. Nonetheless, insurers raised specific concerns about the classification in the investing category of income and expenses from equity accounted investments that are linked to insurance contracts or are held for prudential purposes, as they would be considered part of 'net financial result', which is an important indicator of an insurer's operating performance. [IFRS 18.BC123].

The Board highlighted that, while a presentation 'mismatch' might arise, depending on the entity's choice to account for such investments using the equity method or at fair value through profit or loss, the issue does not appear to be pervasive. [IFRS 18.BC124, IFRS 18.BC125]. Insurers facing the 'mismatch' could present a line item for income and expenses from equity accounted investments immediately below operating profit and disaggregate the line item to highlight those investments considered part of their net financial result. They could also present an additional subtotal or disclose an MPM. These options are expected to enable a user of the financial statements to analyse appropriately the impact of equity accounted investments on the net financial result. [IFRS 18.BC127].

#### Frequently asked questions

##### **Question 3-40: Can an entity present an additional subtotal for the income of only some equity accounted investments within the investing category?**

Entities may have equity accounted investments which relate closely to their main business activity. For example, an insurer may have equity accounted investments which relate to their insurance business as well as equity accounted investments which are unconnected to that business. Such an entity may present an additional subtotal (see section 2.1.1.B above) within the investing category (e.g., just after the operating profit subtotal) to show the results of operating profit, plus the results of the insurance-related equity accounted investments, if this additional subtotal is required to provide a useful structured summary.

[IFRS 18.24, IFRS 18.BC120(b)].



### Illustration 3-12: Additional subtotal for insurance related associates

Entity I, a short-term insurer, has concluded that an additional subtotal is required in its consolidated statement of profit or loss to present separately the returns from its insurance related associates accounted for using the equity method.

Extract from Entity I's consolidated statement of profit or loss:

|   | 20X1       | 20X2       |
|---|------------|------------|
| <b>Operating profit</b>   | <b>XXX</b> | <b>ZZZ</b> |
| Share of the profit of insurance-related associates                             | XX         | ZZ         |
| <b>Operating profit and share of the profit of insurance-related associates</b> | <b>XXX</b> | <b>ZZZ</b> |
| Share of the profit of other associates   | XX         | ZZ         |
| <b>Profit or loss before financing and income tax</b>                           | <b>XXX</b> | <b>ZZZ</b> |

Note that such an additional subtotal would need to meet all the requirements set out in IFRS 18.24, see section 2.1.1.B above, and could also meet the definition of a management-defined performance measure (see section 4.2.4.B below). [IFRS 18.BC367].

Furthermore, the Board introduced transitional requirements which permit an eligible entity<sup>25</sup> to change its election under paragraph 18 of IAS 28 for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss when it first applies IFRS 18. IAS 28 sets out what is meant by 'eligible entities': [IFRS 18.C7, IFRS 18.BC128, IFRS 18.BC423, IAS 28.18]

#### Extract from IAS 28

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

### 3.3.5.B Insurance contracts

Certain exclusions apply to the financing category; insurance finance income and expenses included in the statement of profit or loss applying IFRS 17 must be classified in the operating category. Such income and expenses arise from issued insurance contracts, reinsurance contracts held and investment contracts with participation features in the scope of IFRS 17. This exclusion also applies to investment contracts with participation features in the scope

25 In February 2026, the IASB published Exposure Draft [ED/2026/1 Amendments to the Fair Value Option for Investments in Associates and Joint Ventures](#), available on the IFRS Foundation's website, which proposes to clarify which entities are 'eligible entities'.

of IFRS 9 (see section 3.3.6 below). [IFRS 18.64(b), IFRS 18.BC196]. The exclusion applies regardless of whether an entity issues insurance contracts as a main business activity. [IFRS 18.BC197].

#### **Host insurance contract and embedded derivative are separated**

This exclusion also applies to the host insurance contract in a hybrid contract, where the host liability and embedded derivative in an issued insurance contract are accounted for separately. Thus, income and expenses from the host liability will be classified in the operating category.

[IFRS 18.B56(a)(i), IFRS 18.BC179(a)]. Income and expenses from the separated embedded derivative are accounted for in the same way as a similar stand-alone derivative, see section 3.2.8 above. [IFRS 18.B56(a)(ii)].

#### **Embedded derivative is *not* separated**

If the host liability and the embedded derivative in an insurance contract are not separated, they are classified in the same way as for a single insurance contract and the income and expenses from the whole hybrid contract, including insurance finance income and expenses, are classified in the operating category. [IFRS 18.B56(c)(ii), IFRS 18.BC179(b)].

### **3.3.6 Entities that issue investment contracts with participation features**

The exclusion from the financing category also applies to income and expenses from issued investment contracts with participation features recognised applying IFRS 9. This will apply to any investment contract with participation features issued by an insurer which does not meet the definition in IFRS 17 of an insurance contract with discretionary participation features, as well as any investment contract with participation features issued by an investment entity. [IFRS 18.64(a), IFRS 18.B58].

Without the exclusion, applying the requirements of IFRS 18 would result in income and expenses arising from the assets in such contracts being classified in the operating category (assuming that the entity invested in the assets as a main business activity), whereas income and expenses from the liability would be classified in the financing category. However, the difference between the returns on the assets and the expense from the investment contract liability is typically an important indicator of an entity's operating performance. Therefore, such an entity is required to classify the income and expenses from the liabilities arising from the investment contracts with participation features in the operating category. [IFRS 18.BC192, IFRS 18.BC193, IFRS 18.BC194].

Note that this requirement applies to all entities that have issued investment contracts with participation features, and not only to those that do this as a main business activity. In practice, most such entities are expected to assess investing in assets as a main activity. [IFRS 18.BC195].

#### **Frequently asked questions**

##### **Question 3-41: Under IFRS 18, how are the income and expenses from investment contract liabilities *without* participation features classified?**

Some entities, like insurers, also issue investment contracts without participation features. However, the exclusion discussed above does *not* extend to investment contracts without participation features; any liability recognised under such a contract is assessed applying the usual requirements for liabilities - see section 3.2.2 and section 3.3.3 above. [IFRS 18.BC194].

### 3.4 Items to be presented in the statement of profit or loss

The standard specifies the line items to be presented separately in the statement of profit or loss, as follows: [IFRS 18.75, IFRS 18.76]

#### Extract from IFRS 18

- 75 An entity shall present in the statement of profit or loss line items for (see paragraph B77):
- (a) amounts required by this Standard, namely:
    - (i) revenue, presenting separately the line items described in (b)(i) and (c)(i);
    - (ii) operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);
    - (iii) share of the profit or loss of associates and joint ventures accounted for using the equity method;
    - (iv) income tax expense or income; and
    - (v) a single amount for the total of discontinued operations (see IFRS 5);
  - (b) amounts required by IFRS 9, namely:
    - (i) interest revenue calculated using the effective interest method;
    - (ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;
    - (iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;
    - (iv) any gain or loss arising from the difference between the fair value of a financial asset and its previous amortised cost at the date of reclassification from amortised cost measurement to measurement at fair value through profit or loss; and
    - (v) any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss at the date of reclassification of a financial asset from measurement at fair value through other comprehensive income to measurement at fair value through profit or loss; and
  - (c) amounts required by IFRS 17, namely:
    - (i) insurance revenue;
    - (ii) insurance service expenses from contracts issued within the scope of IFRS 17;
    - (iii) income or expenses from reinsurance contracts held;
    - (iv) insurance finance income or expenses from contracts issued within the scope of IFRS 17; and
    - (v) finance income or expenses from reinsurance contracts held.
- 76 An entity shall present in the statement of profit or loss (outside all the categories described in paragraph 47) an allocation of profit or loss for the reporting period attributable to:
- (a) non-controlling interests; and
  - (b) owners of the parent.

However, despite this requirement for specified line items, as discussed in section 2.1.1.A above, IFRS 18 introduces a two-step approach to determine which of these line items to present:

**Step 1:** Assess which required line items are material

**Step 2:** Assess whether presentation of the material required line items (i.e., separate presentation in the primary financial statements) is necessary to present a useful structured summary

The outcome of this is that an entity is required to present the line items listed in IFRS 18.75 above, unless the line item is not necessary for the statement of profit or loss to fulfil its role of providing a useful structured summary. [IFRS 18.BC238]. If a line item is omitted on the grounds that it is unnecessary for providing a useful structured summary, it is disclosed in the notes, if it provides material information. [IFRS 18.BC237].

See section 2.1.1.A above for further discussion on the interaction between required line items and the useful structured summary in the primary financial statements as a whole.

IFRS 18 requires three totals and subtotals to be presented in the statement of profit or loss, which are intended to contribute to the presentation of a useful structured summary: [IFRS 18.69]

- (a) **Operating profit or loss** - i.e., comprising all income and expenses classified in the operating category (see section 3.2.3.A above)
- (b) **Profit or loss before financing and income taxes** - i.e., comprising operating profit or loss and all income and expenses classified in the investing category (see section 3.2.1.H and section 3.3.3.G above)
- (c) **Profit or loss** - i.e., comprising the total of income less expenses included in the statement of profit or loss and, thus, includes all income and expenses classified in all categories in the statement of profit or loss [IFRS 18.72]

Following the introduction of the three new categories within the statement of profit or loss (discussed in section 3 above), an entity might need to present a required line item in more than one category. For example, impairment losses could arise on receivables for goods and services, as well as on financial assets that generate a return individually and largely independently of the entity's other resources. Such impairments recognised by an entity without a specified main business activity would be classified in the operating and investing categories, respectively. [IFRS 18.B77]. This requirement is intended to lead to enhanced comparability and understandability, compared with the alternative of requiring each line item to be presented in a single category. The standard requires any line item presented in more than one category to be described in a way that faithfully represents the characteristics of that item (which could be, for instance, 'expected credit losses on trade receivables balances' and 'expected credit losses on other financial assets' in the example above). [IFRS 18.BC239].

An entity uses judgement to determine whether to present additional line items in the statement of profit or loss to fulfil the role of providing a useful structured summary, or to disclose items in the notes. [IFRS 18.77]. An entity's judgement is based on an assessment of whether the characteristics of the items in question are similar or dissimilar.

IFRS 18 requires three totals and subtotals to be presented in the statement of profit or loss:

- (a) Operating profit or loss
- (b) Profit or loss before financing and income taxes
- And
- (c) Profit or loss

IFRS 18 provides guidance on how to apply that judgement and sets out the types of characteristics to consider, as follows: [IFRS 18.B78]

#### Extract from IFRS 18

B78 ...  
Such characteristics include:

- (a) nature (see paragraph 80);
- (b) function (role) within the entity's business activities (see paragraph 81);
- (c) persistence (including the frequency of the item of income or expense or whether it is recurring or non-recurring);
- (d) measurement basis;
- (e) measurement uncertainty or outcome uncertainty (or other risks associated with an item);
- (f) size;
- (g) geographical location or regulatory environment;
- (h) tax effects (for example, if different tax rates apply to items of income or expense); and
- (i) whether the income or expenses arise on initial recognition of a transaction or event or from a subsequent change in estimate relating to the transaction or event.

The standard provides a list of income and expenses which may have dissimilar characteristics to the extent that either presentation in the statement of profit or loss is necessary to provide a useful structured summary or disclosure in the notes is necessary to provide material information, as follows: [IFRS 18.B79]

- Write-downs and reversals thereof relating to inventories
- Impairment losses and reversals thereof relating to property, plant and equipment
- Income and expenses from restructurings of an entity's activities and reversals of any provisions for restructuring
- Income and expenses from disposals of property, plant and equipment
- Income and expenses from disposals of investments
- Income and expenses from litigation settlements
- Reversals of provisions
- Non-recurring income and expenses not included in the items above

Although some IFRS accounting standards require specific line items to be presented separately in the primary financial statements (for example, IFRS 18.75 above), an entity need not present separately a line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary. [IFRS 18.23].

#### Frequently asked questions

**Question 3-42: Can an entity present gains or losses on disposal of an equity accounted investment in the same line item as the share of profit or loss from an equity accounted investment?**

See the response to Question 3-3 in section 3.2.1.B above.

The principles of aggregation and disaggregation are discussed further in section 2.2.1 above.

### 3.4.1 Presentation of line items in the financing category

The line items to be presented in the statement of profit or loss have been brought forward from those required under IAS 1, with just two changes: the line item 'finance costs' has been removed; and 'operating expenses' has been included. [IFRS 18.BC236]. Although 'finance costs' has been removed as a line item, an entity will apply the requirements discussed in section 3.2.2 above and will, therefore, consider the following when determining the relevant line items in the financing category: [IFRS 18.BC242]

#### Extract from IFRS 18

BC242 The IASB also decided not to add any line items for expenses classified in the financing category to paragraph 75 of IFRS 18. However, an entity is required to present items classified in the financing category considering the role of the primary financial statements, which replaces the requirement in IAS 1 to present a line item for 'finance costs'. In applying the requirements in IFRS 18, an entity classifies in the financing category:

- (a) income and expenses that arise from the initial and subsequent measurement of liabilities that arise from transactions that involve only the raising of finance;
- (b) incremental expenses directly attributable to the issue and extinguishment of liabilities that arise from transactions that involve only the raising of finance; and
- (c) interest expenses and income and expenses arising from changes in interest rates of liabilities that do not arise from a transaction that involves only the raising of finance, but only if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards.

An entity applies judgement to determine whether and how there is a distinction between amounts classified in the financing category (see section 3.2.2 above). This will determine whether separate presentation provides a useful structured summary. If an entity decides that the presentation of a single line item is appropriate, it is required to disclose in the notes disaggregated information about those expenses, if the resulting information is material. [IFRS 18.BC243].

### 3.4.2 Presentation and disclosure of expenses classified in the operating category

The principle of providing a useful structured summary informs the requirements for the classification and presentation of line items in the operating category of the statement of profit or loss. [IFRS 18.BC246]. An entity must use one, or both of the following characteristics to present its operating expenses: [IFRS 18.78]

- The nature of expenses - see section 3.4.2.A below
- The function of expenses within the entity - see section 3.4.2.B below

Classifying and presenting operating expenses based on nature and/or function improves the usefulness of information. Analysing individual components is made possible by a nature presentation, whereas a function presentation enables the calculation of certain performance metrics. However, for some entities a mixture of both could provide the most useful structured summary, see section 3.4.2.E below. [IFRS 18.BC247].

Operating expenses are classified and presented consistently from one reporting period to another, unless the conditions in IFRS 18.30 set out below apply: [IFRS 18.30, IFRS 18.B83].

#### Extract from IFRS 18\*

#### Consistency of presentation, disclosure and classification

- 30 An entity shall retain the presentation, disclosure and classification of items in the financial statements from one reporting period to the next unless:
- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for selecting and applying accounting policies in IAS 8 *Basis of Preparation of Financial Statements* (see paragraph B12); or
  - (b) an IFRS Accounting Standard requires a change in presentation, disclosure or classification.

\* The consequential amendments, once effective, change the title of IAS 8 to '*Basis of Preparation of Financial Statements*' to better reflect the amended content of IAS 8.

For example, a goodwill impairment presented as a nature line item in one period must be presented as such in subsequent periods, unless the requirements above apply. An expense of nil in a subsequent period does not constitute a change in classification and presentation. [IFRS 18.B83].

#### 3.4.2.A Presentation of operating expenses by nature

As noted above, an entity can choose to present its operating expenses according to their nature (hereafter, "nature expenses" or "nature presentation"). A nature presentation provides information about operating expenses related to the nature of the economic resources consumed to execute the entity's activities. Such expenses do not refer to the activities in relation to which those resources were consumed. Examples of nature expenses include: [IFRS 18.80]

- Raw material expense
- Employee benefit expense
- Depreciation and amortisation

The amounts of nature expenses presented or disclosed in a period need not be the amounts recognised as an expense in that period, as certain amounts might have been capitalised as part of the carrying amount of an asset and will, therefore, be recognised as an expense in a future period. If an entity presents amounts that are not the same as the amounts recognised as an expense in the period, an additional line item must be presented for the change in the carrying amount of the affected assets. [IFRS 18.B84, IFRS 18.BC269, IFRS 18.BC270]. A common example of this is the presentation of a line item relating to the changes in inventories of finished goods and work in progress.

#### 3.4.2.B Presentation of expenses by function

Entities can allocate and aggregate operating expenses according to the activity to which the consumed resource relates, this is classification by function. An example is cost of sales, which typically combines expenses relating to an entity's production or revenue-generating activities, such as raw material expense, employee benefit expense, depreciation and amortisation. 'Function' is not further defined in IFRS accounting standards, but it is a longstanding concept and considered to be widely understood. [IFRS 18.BC253].

Adopting a function presentation results in the allocation of expenses relating to economic resources of the same nature across several function line items, for example, employee benefits might be allocated to cost of sales and research and development, whereas a single function line item might contain allocations of expenses relating to economic resources of several differing natures. [IFRS 18.81, IFRS 18.BC254].

Building on the previous requirements in IAS 1, if an entity presents at least one or more line items of operating expense by function, it is required to: [IFRS 18.82, IFRS 18.BC255, IFRS 18.BC258]

- Present a separate line item for cost of sales, if its functions include a cost of sales function, which needs to include the total of inventory expense, described in paragraph 38 of IAS 2 *Inventories*.
- Disclose a qualitative description of the nature of expenses included in each function line item. The qualitative description of the nature of expenses included in each line item is expected to enhance the understandability of the composition of each line item. [IFRS 18.BC258].

#### I Additional disclosure of five 'by nature' expenses

Function line items inherently aggregate nature expense items that could respond differently to changes in the economic environment. To enable users to better forecast future operating expenses, there are additional disclosure requirements for entities which present one or more function line items in the operating category of the statement of profit or loss. Such entities must disclose the following in a single note: [IFRS 18.83, IFRS 18.BC259, IFRS 18.BC260]

#### Extract from IFRS 18

- 83** An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:
- (a) the total for each of:
    - (i) depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of IAS 16 *Property, Plant and Equipment*, paragraph 79(d)(iv) of IAS 40 *Investment Property* and paragraph 53(a) of IFRS 16 *Leases*;
    - (ii) amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of IAS 38 *Intangible Assets*;
    - (iii) employee benefits, comprising the amount for employee benefits recognised by an entity applying IAS 19 *Employee Benefits* and the amount for services received from employees recognised by an entity applying IFRS 2 *Share-based Payment*;
    - (iv) impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of IAS 36 *Impairment of Assets*; and
    - (v) write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of IAS 2; and
  - (b) for each total listed in (a)(i)-(v):
    - (i) the amount related to each line item in the operating category (see paragraph B84); and
    - (ii) a list of any line items outside the operating category that also include amounts relating to the total.

Note that the requirement is limited to the five nature expenses listed in the extract above. This is intended to be a cost-effective solution to providing disaggregated information about operating expenses, which will provide useful information. [IFRS 18.BC265]. The disclosure is to be contained in a single note as users typically analyse information about operating expenses together. [IFRS 18.BC268(a)].



## How we see it

In practice, the five items requirement could require entities to add functionality to their systems. Although IAS 1.104 and current practice require the disclosure of the nature of depreciation/amortisation and employee benefits expenses, the IFRS 18 requirement adds specifically identified expenses. Importantly, it adds the requirement to identify the function line in which the nature expenses are included.

## Frequently asked questions

**Question 3-43: Do the requirements in IFRS 18.83 to disclose the total of the five specified 'by nature' expenses apply only to operating expenses presented by function applying IFRS 18.75(a)(ii), or do they apply to all operating expenses presented by function?**

The requirements above are not limited to when an entity voluntarily presents one or more operating expense line items by function, but also apply in cases where another IFRS accounting standard requires an entity to present an operating expense line item by function. For example, IFRS 17 requires an insurer to present a line item for 'insurance service expenses' in its statement of profit or loss, which represents an allocation of expenses of different natures (i.e., a 'by function' line item). [IFRS 17.84]. An insurer will, therefore, be required, at a minimum, to disclose qualitative information about the nature of the expense and quantitative information about the five items described above.

The IFRS IC discussed this issue in March 2026<sup>26</sup> and concluded that since IFRS 18.83 contains no exceptions or exclusions, the reason for classifying an expense by function (i.e., voluntarily or due to a specific requirement) is irrelevant to the applicability of those requirements. As a result, the IFRS IC concluded that IFRS 18.83 applies to *all* operating expenses presented by function.

The IFRS IC also observed that the amount disclosed applying IFRS 18.83 need not be the expense for the period, as those amounts might include expenses capitalised to the carrying amount of an asset in that period. In such cases, disclosure of that fact is required, identifying the assets involved. [IFRS 18.75(a)(ii), IFRS 18.83, IFRS 18.B84].

## II Exemption for other 'by nature' expenses

Restricting the requirement to the five 'by nature' expenses listed in the extract above may appear to conflict with the requirement to disaggregate items to provide material information in IFRS 18.41 (see section 2.2.1 above). There could be other nature items included within function line items not listed above, which, when disaggregated, are individually material. However, the standard gives an exemption from disclosing those other items; there is no threshold for applying this exemption and so the exemption applies to all circumstances. [IFRS 18.84]. Without the exemption, an entity would have been required to disclose

26 [IFRIC Update](#), March 2026, available on the IFRS Foundation's website.

further information about all its material nature expenses contained within its function line items and this would not be cost effective. [IFRS 18.BC272-BC275].

IFRS 18 also provides an exemption for nature expenses that an IFRS accounting standard specifically requires to be disclosed in a note. For such expenses, disaggregated information about the amounts of the expenses included in each function line item presented in the operating category of the statement of profit or loss is limited to the five nature items listed in the extract above. [IFRS 18.84, IFRS 18.BC272-BC276].

Notwithstanding the exemption afforded above, entities are not exempted from applying the specific disclosure requirements relating to those expenses contained in other IFRS accounting standards. [IFRS 18.85].

### III Impact of capitalised expenses

The amounts of nature expenses disclosed in a period need not be the amounts recognised as an expense in that period, as certain amounts might have been capitalised as part of the carrying amount of an asset and will, therefore, be recognised as an expense in a future period - see section 3.4.2.A above for the requirements relating to such amounts. When an entity makes the required disclosures relating to the five nature items described in the extract above and discloses amounts that are not the amounts recognised as an expense in the period, it gives a qualitative explanation of that fact, identifying the assets involved. [IFRS 18.B84(b), IFRS 18.BC271].

### IV Example disclosures

The following extract from the Illustrative Examples to IFRS 18 shows an example of the disclosure of the five specified expenses discussed above. [IFRS 18.IE7 Note 1].

#### Extract from Illustrative Examples on IFRS 18

##### Note 1-Specified expenses by nature

This table shows the totals of depreciation, amortisation, employee benefits, impairment losses and write-down of inventories and the amounts related to each line item in the operating category of XYZ Group's statement of profit or loss.

|                                     | (in thousands of CU) |               |
|-------------------------------------|----------------------|---------------|
|                                     | 20X2                 | 20X1          |
| <b>Depreciation</b>                 |                      |               |
| Cost of sales                       | 23,710               | 21,990        |
| Research and development expenses   | 2,515                | 2,590         |
| General and administrative expenses | 4,975                | 4,750         |
| <b>Total depreciation</b>           | <b>31,200</b>        | <b>29,330</b> |
| <b>Amortisation</b>                 |                      |               |
| Research and development expenses   | 13,840               | 12,690        |
| <b>Total amortisation</b>           | <b>13,840</b>        | <b>12,690</b> |
| <b>Employee benefits</b>            |                      |               |
| Cost of sales                       | 61,640               | 57,175        |
| Selling expenses                    | 7,515                | 7,110         |
| Research and development expenses   | 6,545                | 6,750         |
| General and administrative expenses | 8,920                | 5,825         |
| <b>Total employee benefits</b>      | <b>84,620</b>        | <b>76,860</b> |

| <b>Impairment losses<sup>(a)</sup></b>         |              |              |
|--|--------------|--------------|
| Research and development expenses              | 1,600        | 1,500        |
| Goodwill impairment loss                       | 4,500        | -            |
| <b>Total impairment losses</b>                 | <b>6,100</b> | <b>1,500</b> |
| <b>Write-down of inventories<sup>(a)</sup></b> |              |              |
| Cost of sales                                  | 2,775        | 2,625        |
| <b>Total write-down of inventories</b>         | <b>2,775</b> | <b>2,625</b> |

(a) The amounts disclosed represent the total of impairment losses and reversals of impairment losses and the total of write-down of inventories and reversals of write-down of inventories.

### 3.4.2.C 'Cost of sales' line item

Some stakeholders flagged the diversity in practice regarding the costs included in the 'cost of sales' line item. While the Board acknowledged these concerns, it stopped short of providing a definition for 'cost of sales'. [IFRS 18.BC256]. However, the Board decided to require entities to include inventory expense as set out in IAS 2.38 within the 'cost of sales' line item when one is presented. [IFRS 18.82(a)]. The Board concluded that the inclusion of the inventory expense, as described in IAS 2, ought to help reduce diversity in the costs included in cost of sales as, in practice, some entities have previously excluded certain components of inventory expense.<sup>27</sup> The Board believes this will improve comparability between entities presenting the cost of sales line item. [IFRS 18.BC256, IFRS 18.BC257].



#### How we see it

The scope of cost of sales will remain judgemental under IFRS 18 since the Board did not develop a definition for the term. Entities will, therefore, still need to consider facts and circumstances when considering whether to classify, for instance, shipping and handling costs, and write-offs on items such as inventory and property, plant and equipment within the 'cost of sales' line item.

### 3.4.2.D Assessing which presentation provides the most useful structured summary

Any individual line item can only contain expenses aggregated on the basis of either nature or function. However, a mixed presentation within the operating category as a whole is permitted. [IFRS 18.79].

To make the determination as to which presentation provides the most useful structured summary, an entity is required to consider the following: [IFRS 18.B80]

- Which line items provide the most useful information about the main components or drivers of the entity's profitability
- Which line items most closely represent the way the business is managed and the entity's internal reporting
- Standard industry practice to enhance comparability
- Whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items would not provide a faithful representation of the functions

<sup>27</sup> For further information on including specific items in cost of sales, see International GAAP® 2026, Chapter 23 at section 6.1 and Chapter 28 at section 10.3, Question 10-8. Available on [ey.com/IFRS](http://ey.com/IFRS).

If the allocation of particular expenses is arbitrary, to the extent that a faithful presentation of functions is lost, the entity is required to classify the expenses by nature. *[IFRS 18.B80]*.

These considerations can result in different presentations, depending on the industry in which the entity operates. For example, looking at drivers of profitability for a retail entity, the function of cost of sales might be a main driver, as there is a direct link between these costs and revenue. This is in contrast to a services industry, where information about the nature of certain expenses, such as employee benefits, might be more relevant as those expenses drive profitability. *[IFRS 18.B80(a)]*.

Similarly, considering the way management reports internally could result in different presentation. Thus, a manufacturing entity that is managed by function is likely to have its internal reporting presented by function, whereas an entity with a single predominant function, such as providing finance to customers, might use nature of expense reporting for internal purposes. In both cases, this could influence the entity's assessment of the most useful structured summary of its expenses. *[IFRS 18.B80(b)]*.

As previously stated, an entity is required to consider the level of aggregation that will provide the most useful structured summary. It might decide that certain activities such as human resources, information technology, legal services and accounting have a shared characteristic of being resources consumed in administrative activities. Thus, an entity might determine that a line item labelled 'administrative expenses' provides relevant information. The same entity might also incur expenses for resources consumed in selling activities and determine that these expenses have one dissimilar characteristic compared to the expenses aggregated in administrative expenses as they all relate to selling activities. For this reason, the entity might present a separate line item for 'selling expenses' in order to achieve the goal of presenting a useful structured summary. *[IFRS 18.B85]*.

However, it is important to note that the general aggregation requirements of IFRS 18 still apply, and some items allocated to different functions or natures might need to be aggregated for presentation as line items in the statement of profit or loss to achieve a useful structured summary, see section 2.2.3 above.

### **3.4.2.E Mixed presentation**

An outcome of considering the factors in the sub-section above is that an entity might conclude that a mixed presentation, i.e., classifying some expenses by function and others by nature, provides the most useful structured summary. This might be the case for entities with two different types of main business activity or for particular expenses, whose allocation to a function would be arbitrary. *[IFRS 18.B81]*.

In the outreach stage of developing IFRS 18, mixed feedback was received about the concept of permitting a mixed presentation, with some users asserting that a mixed presentation can affect comparability, whereas others asserted that it facilitates the presentation of useful information, particularly when an entity has two types of main business activities. It also avoids arbitrary allocations of certain types of expenses, such as goodwill impairment, and allows for the separate presentation of certain expenses which might have characteristics that could aid understanding of the financial performance, for example, an impairment expense. The Board decided that a mixed presentation could, in some circumstances, provide the most useful structured summary and added application guidance, described below, to address the concerns of the first group of users. *[IFRS 18.BC250, IFRS 18.BC251, IFRS 18.BC252]*.

The Board's decision does not mean that an entity has a free choice to present a mixed presentation, as it is constrained by the requirement to present the statement of profit or loss in the manner which results in the most useful structured summary. [IFRS 18.78]. Thus, it would be inappropriate in a presentation by function to present material nature line items in a different location, just to present a particular result (also see section 3.5 below).

If an entity adopts a mixed presentation, it labels the line items in a manner that allows users to clearly identify which expenses are included in each line item. For example, if some employee benefits are included in cost of sales and others in a nature line item, the nature line item must clearly identify that not all employee benefits are contained within, for example, 'employee benefits other than those included in cost of sales'. [IFRS 18.B82].

### 3.4.3 Presentation of profit or loss attributable to non-controlling interests

The standard requires 'profit or loss attributable to non-controlling interests' and 'profit or loss attributable to owners of the parent' to be presented in the statement of financial performance. They are presented as allocations of profit or loss, rather than as items of income or expense. [IFRS 18.76, IFRS 18.BC2244].

## 3.5 Separate presentation of "non-recurring" items

In current practice under IAS 1, some entities applying the 'by function' method of presentation present 'non-recurring' or 'unusual' items separately on the face of the statement of profit or loss, leading to a mixed presentation. The question arises as to whether entities are permitted to continue to do this, when otherwise following a 'by function' method of presentation under IFRS 18.

Separate presentation of 'non-recurring' items in the statement of profit or loss raises several questions:

- 1) Does IFRS 18 prohibit separate presentation of 'non-recurring' items?
- 2) What is considered to be 'non-recurring' and does such an item truly lack persistence?
- 3) Is disaggregation based on persistence permissible in a 'by function' presentation?
- 4) Is disaggregation of a required line item permissible to achieve a useful structured summary?
- 5) Can an entity present an additional subtotal when disaggregating certain items based on persistence?

#### 1) Does IFRS 18 prohibit separate presentation of 'non-recurring' items?

An entity is required to present disaggregated line items in the primary financial statements if it contributes to a useful structured summary (see section 2.2.1 above). [IFRS 18.41, IFRS 18.B17].

IFRS 18 specifically mentions that 'non-recurring income and expenses' may have sufficiently dissimilar characteristics that presentation (i.e., in a separate line item) in the statement of profit or loss might be necessary to provide a useful structured summary. [IFRS 18.41(c), IFRS 18.B79(h)]. Further to this, IFRS 18 highlights persistence as a characteristic which could be sufficiently dissimilar to warrant separate presentation on the face of the statement of profit or loss. [IFRS 18.B78(c)].

The Basis for Conclusions on IFRS 18 indicates that information about unusual income and expenses is useful to users of financial statements and provides an example of separate presentation of restructuring costs due to a lack of persistence. [IFRS 18.BC55, IFRS 18.BC413].

It is apparent from the above that IFRS 18 does not prohibit the separate presentation of 'non-recurring' items and could, in fact, require it if such separate presentation is necessary for a primary financial statement to provide a useful structured summary.

## 2) What is considered to be 'non-recurring' and does such an item lack persistence?

The absence of 'persistence' is typically the characteristic that drives the presentation of a 'non-recurring' or 'unusual' item. However, what is considered 'non-recurring' or 'unusual' is inherently judgemental and will be specific to the particular facts and circumstances of the reporting entity. This is emphasised by the Board ultimately deciding against developing a definition for 'unusual' due to the differing views expressed by stakeholders in their feedback to the draft standard. [IFRS 18.BC407-BC412].



### How we see it

Determining whether an item of income or expense is truly 'non-recurring' (i.e., lacks persistence) is an inherently judgemental assessment and will depend on the entity-specific facts and circumstances.

Entities must consider the regulatory perspective on presentation of 'non-recurring' or 'unusual' items in the jurisdictions in which they operate.

## 3) Is disaggregation based on persistence permissible in a 'by function' presentation?

If an entity presents separately a 'non-recurring' item on the basis of an absence of persistence in an otherwise 'by function' presentation, the item may become essentially a 'by nature' item. This is because it may provide information related to the nature of the economic resources consumed, rather than the activities in relation to which those economic resources were consumed (see section 3.4.2.A above).

In the case where an entity has already concluded that a 'by function' rather than 'by nature' or 'mixed' presentation provides the most useful structured summary, the question arises as to whether that conclusion can be overridden by presenting one 'by nature' line to show 'non-recurring' separately.

IFRS 18 is clear that it is possible to present line items in the statement of profit or loss using both a 'by nature' and a 'by function' presentation, that is, a mixed presentation is permitted, if that presentation is necessary to provide a useful structured summary. [IFRS 18.78, IFRS 18.BC252].

The standard also clarifies that if the allocation of some expenses to a function would be arbitrary, presentation of a nature line item is permitted, provided the line items are faithfully labelled. [IFRS 18.B80(d), IFRS 18.B81(a), IFRS 18.B82, IFRS 18BC251(a)(iii)]. It is important to note that the label 'non-recurring' is unlikely to be appropriate as it is non-specific and often would not meet the requirements for labelling to be clear and faithfully represent the characteristics of the item. [IFRS 18.43].

Therefore, an entity must apply judgement to assess which presentation achieves the most useful structured summary and, in doing so, must consider disaggregating items on the basis of dissimilar characteristics, including persistence (see section 2.2.2.A above).

#### 4) Is disaggregation of a required line item permissible to achieve a useful structured summary?

Additional line items must be presented if they are necessary to provide a useful structured summary in the statement of profit or loss. [IFRS 18.24].

An entity may conclude that it needs to present an additional line item for a non-recurring expense, to achieve a useful structured summary. If this non-recurring expense would otherwise have formed part of a required 'by function' line item, it raises the question whether it is appropriate, or even required, to disaggregate that required line item, i.e., whether the entity would present both:

- The required 'by function' line item (including the non-recurring expense)  
And
- An additional line item for the adjusted version of that required line item (excluding the non-recurring expense)

An example of this is illustrated below.



#### Illustration 3-13: Presentation of non-recurring items separately from cost of sales

Entity U experiences a meteor strike on one of its warehouses, leading to an inventory write down. Management assesses that this is a non-recurring event (i.e., these expenses lack persistence) and has previously used a 'by function' presentation.

Entity U considers it necessary to present the effect of the meteor strike separately within the statement of profit or loss in order to provide a useful structured summary.

Extract from Entity U's statement of profit or loss:

|  | CU'000     |
|--|------------|
| Revenue  | XXX        |
| Cost of sales excluding effects of meteor strike | XXX        |
| Inventory losses relating to meteor strike       | XXX        |
| Cost of sales                                    | XXX        |
| <b>Gross profit</b>                              | <b>XXX</b> |
| ...  |            |

In this case, management concluded that in order to provide a useful structured summary, the statement of profit or loss needs to present:

- A cost of sales line item (including the non-recurring item)  
And
- A disaggregation of cost of sales to show the non-recurring item separately



#### How we see it

In certain circumstances, in order to provide a useful structured summary, it may be necessary to disaggregate a required 'by function' line item and present a non-recurring measure separately in the statement of profit or loss, but this will be a highly judgemental assessment based on an entity's individual facts and circumstances.

In such cases, as presenting a 'by nature' line item would inevitably lead to an adjusted 'by function' measure being presented, it is also necessary to consider whether to present the unadjusted measure in order to achieve a useful structured summary.

Entities must consider the regulatory perspective in all relevant jurisdictions in which they operate.

#### 5) Can an entity present an additional subtotal when disaggregating certain items based on persistence?

If an entity disaggregates items on the basis of persistence, as discussed above, it might well consider it necessary to provide an additional subtotal of income and expenses that excludes non-recurring items. The Board considered prohibiting an entity from presenting management-defined subtotals of income and expense in the statement of profit or loss, in response to the concerns of some stakeholders that such measures could be misleading and might be given undue prominence. However, since such a prohibition could prevent an entity from meeting the requirements, discussed in section 2.1.1.B above, to present an additional subtotal when this is necessary to provide a useful structured summary, the Board decided not to include such a prohibition. However, such an additional subtotal would need to meet all the requirements set out in IFRS 18, see section 2.1.1.B above, and could also meet the definition of a management-defined performance measure (see section 4 below). [IFRS 18.BC374].



#### How we see it

It may be appropriate in some cases to present an additional subtotal, but only if it is necessary to provide a useful structured summary and if such a subtotal meets all the requirements for additional subtotals in IFRS 18.24.

In such cases, presentation of the unadjusted subtotal may also be necessary to achieve a useful structured summary.

Nonetheless, entities must consider the regulatory perspective in all jurisdictions in which they operate, in case such subtotals are prohibited by local law.

## 4 Management-defined performance measures

### 4.1 Overview of the new requirements

IFRS 18 introduces the concept of a management-defined performance measure (hereafter MPM). It defines an MPM as a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate to users management's view of an aspect of the financial performance of the entity as a whole (see section 4.2 below). IFRS 18 explicitly notes that subtotals required by an IFRS accounting standard, including IFRS 18 itself, are not MPMs. IFRS 18.118 lists other subtotals that are not MPMs, e.g., "gross profit or loss (revenue minus cost of sales) and similar subtotals" (see section 4.2.4 below).

*[IFRS 18.118, IFRS 18.BC328].*

Many entities currently use alternative performance measures (sometimes referred to as APMs) in their financial communications. However, the Board intentionally limited the definition of MPMs to subtotals of income and expenses. Therefore, a measure (such as 'adjusted profit or loss') which adjusts a total or subtotal specified in IFRS accounting standards is an MPM, while other measures (such as free cash flow or customer retention rate) which are not totals or subtotals of income and expenses are not MPMs.

*[IFRS 18.BC331].*

To improve the transparency around these measures, IFRS 18 requires an entity to disclose information about all its MPMs in a single note to the financial statements. *[IFRS 18.BC369].* The standard requires several disclosures (see section 4.3 below) including:

- How the measure is calculated
- How it provides useful information
- And
- A reconciliation to the most comparable subtotal specified by IFRS 18 or another IFRS accounting standard

While developing the new requirements, users of financial statements indicated that information about MPMs can be useful because it provides insight into how management views the entity's financial performance, the persistence of the entity's financial performance and how the business is managed. However, concerns were raised about the quality of the information about these measures that is generally communicated outside the financial statements. *[IFRS 18.BC325].* The Board agreed that MPMs can provide useful entity-specific information and that including these measures in the financial statements will make them subject to the same disclosure requirements, regardless of an entity's jurisdiction. *[IFRS 18.BC326].*



#### How we see it

We believe that the required disclosures around MPMs will improve transparency for users and since MPMs are required to be included in the financial statements, they will generally also be subject to audit.

It is likely that the required disclosures will elevate the prominence of MPMs and result in increased scrutiny from regulators.

## 4.2 Definition and scope

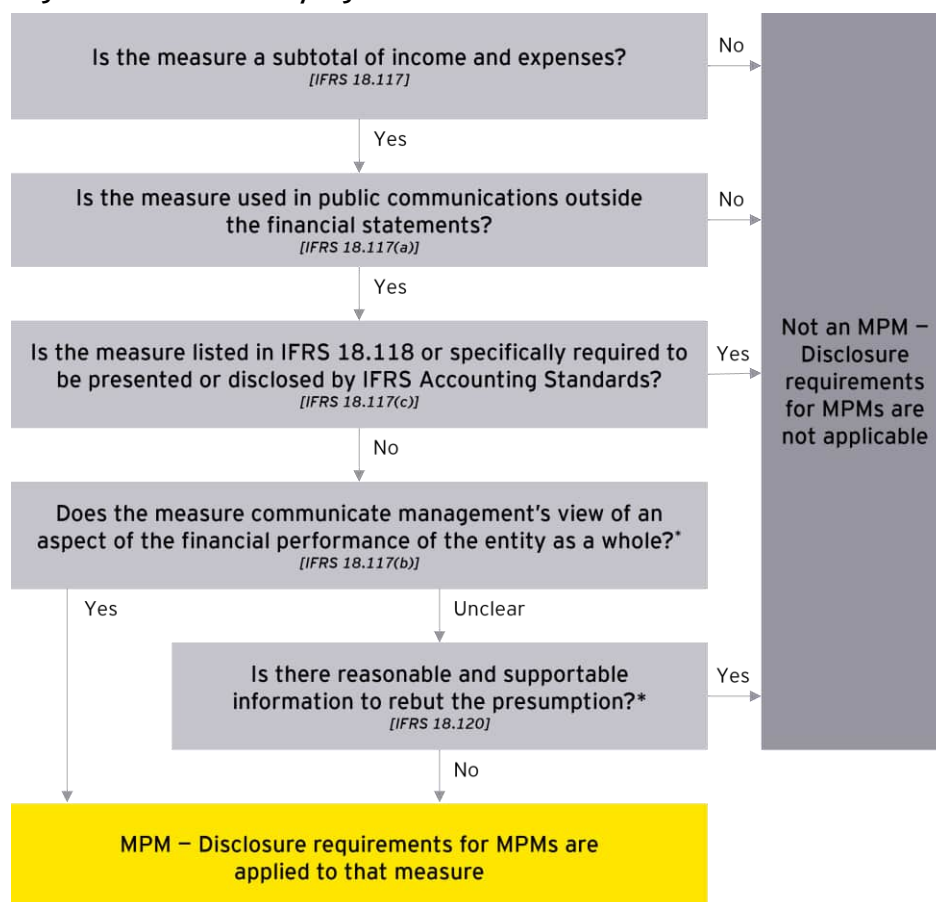
IFRS 18 includes the following definition of an MPM: *[IFRS 18.117, IFRS 18 Appendix A]*

| Extract from IFRS 18                          |   |
|---|---|
| <b>Appendix A</b>                             |   |
| <b>Defined terms</b>                          |   |
| <b>management-defined performance measure</b> | A subtotal of income and expenses that: <ul style="list-style-type: none"> <li>(a) an entity uses in public communications outside financial statements;</li> <li>(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</li> <li>(c) is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.</li> </ul> |

Each of the concepts in this definition is discussed further in the sub-sections below.

The following figure, based on Figure 6 in the Illustrative Examples to IFRS 18, provides an overview of how an entity identifies an MPM: *[IFRS 18.IE Figure 6]*

**Figure 4-1: Identifying MPMs**



\* There is a rebuttable presumption that a subtotal of income and expenses used in public communications communicates management's view (see section 4.2.3.C below).

An entity might have no MPMs, just one, or multiple MPMs. For example, an entity that only uses totals and subtotals required by IFRS accounting standards to communicate publicly its financial performance to users does not have any MPMs. [IFRS 18.B113].



## How we see it

MPMs, as defined in IFRS 18, are a subset of alternative performance measures; many entities currently use alternative performance measures, which do not constitute MPMs, in their communications with capital markets *outside* the financial statements. Entities that plan to include alternative performance measures that are not also MPMs *within* the notes to the financial statements must consider whether this is appropriate. This assessment will require significant judgement, and such inclusion might not be appropriate in many instances since all information included within the financial statements needs to meet the overall ‘fair presentation’ requirement set out in IAS 8.6A.

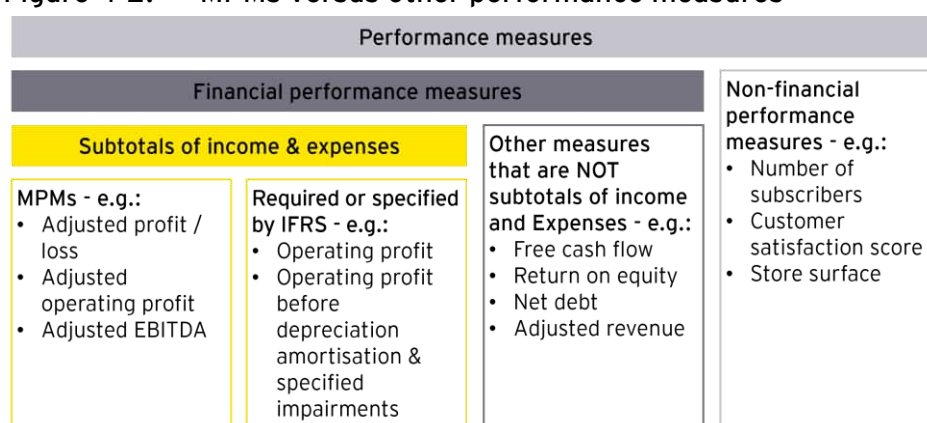
Many regulators have restrictive guidance related to alternative performance measures and some do not accept their inclusion within the financial statements. Therefore, entities will also need to consider local laws and the views of their local regulators before including any alternative performance measures, that are not also MPMs, within the financial statements.

[IAS 8(2027).6A].

### 4.2.1 Subtotals of income and expenses

IFRS 18 intentionally limits the definition of MPMs to subtotals of income and expenses. [IFRS 18.BC331]. This narrow definition results in MPMs being a subset of other performance measures (e.g., alternative performance measures), as illustrated in the following diagram based on a presentation by the IASB Staff:<sup>28</sup>

Figure 4-2: MPMs versus other performance measures



28 [IASB Staff Paper AP1](#), Project: *Primary Financial Statements*, Topic: *Introduction to IFRS 18 Presentation and Disclosure in Financial Statements*, Emerging Economies Group Meeting, October 2023. Available on the IFRS Foundation’s website.

### Measures that are *not* subtotals of income and expenses

Since the definition of an MPM requires it to be a subtotal of income and expenses, the following measures would not be MPMs since they are not subtotals of income and expenses: [IFRS 18.B116]

- (a) **Subtotals of only income or only expenses**  
For example, a stand-alone measure of adjusted revenue
- (b) **Measures of assets, liabilities, equity or combinations of these elements**  
For example, net current operating assets
- (c) **Financial ratios**  
For example, return on assets. However, the numerator or denominator of a financial ratio could be an MPM (see below)
- (d) **Measures of liquidity or cash flows**  
For example, free cash flow  
Or
- (e) **Non-financial performance measures**  
For example, customer satisfaction score

A financial ratio cannot be an MPM since it is not a subtotal of income and expenses. However, the numerator or denominator of a financial ratio could be an MPM if it represents a subtotal of income and expense that would meet the definition of an MPM, had it not been part of a ratio. [IFRS 18.B117].

### Location of subtotals

A subtotal of income and expenses that meets the definition of an MPM does not need to be presented in the statement of profit or loss in order for it to be an MPM. [IFRS 18.B118]. For instance, an entity might present an adjusted operating profit measure outside the financial statements, without the same subtotal being included in the statement of profit or loss. In such a case, this subtotal could be an MPM, provided that it meets the other elements of the MPM definition.

An entity might decide to replicate its statement of profit or loss in a public communication (for example, in a presentation to users). The Board indicates that where the replicated statement of profit or loss includes an additional subtotal not listed in IFRS 18.118 or not specifically required by IFRS accounting standards (see section 4.2.4 below), that subtotal would meet the definition of an MPM, unless the entity rebuts the presumption (see section 4.2.3.C below). [IFRS 18.BC354].

### Frequently asked questions

#### **Question 4-1: Can the numerator of a ratio be an MPM, even if the numerator is never communicated by itself outside the financial statements?**

Many entities use an adjusted earnings ratio (e.g., adjusted operating profit ÷ capital employed) as a key performance indicator in their public communications outside the financial statements. However, the value of the numerator is not always specifically indicated in public communications as some entities just disclose the formula used to derive the overall ratio.

IFRS 18 is clear that while a financial ratio is not an MPM (as it does not represent a subtotal of income or expense) the numerator in such a ratio could be an MPM if it *had met* the definition of an MPM had it not been used in a ratio. [IFRS 18.B117].

That is an entity is required to assess the numerator against the definition of an MPM and can ignore the requirement that the numerator is used by itself in public communications outside the financial statements. It is sufficient that the ratio in which the numerator is included is used in public communications outside the financial statements to communicate management's view of an aspect of the entity as a whole.

If an entity concludes such a subtotal meets the definition of an MPM, the disclosure requirements (see section 4.3 below) will apply to the numerator rather than the financial ratio itself.

**Question 4-2: Are industry specific (e.g., insurance) APMs aligned with the definition of MPMs?**

Entities within certain industry sectors typically use a range of alternative performance measures, but only some of these measures will fall into the narrowly-defined subset of MPMs. For example, measures used by some insurers such as 'adjusted equity' (combination of equity and liabilities), 'combined ratio' (financial ratio, also see Question 4-1 above) or 'embedded value' (measure of cash flows) will not meet the definition of an MPM as they are not subtotals of income and expenses.

**Question 4-3: Can a 'what if' income and expense based alternative performance measure be an MPM?**

Some entities use alternative performance measures, which adjust a subtotal for items that are not measured or recognised in accordance with IFRS accounting standards, as key performance indicators in public communications outside the financial statements. They typically reflect the entity's performance, had certain accounting requirements not applied (i.e., a 'what if' type of alternative performance measure). An example of that might be operating profit without the effects of IFRS 16.

The definition of an MPM refers to a 'subtotal of income and expense' which some could read as referring to only subtotals of 'income' and 'expenses' as defined within IFRS accounting standards. However, the Basis for Conclusions on IFRS 18 is clear that MPMs are defined by management and, therefore, by definition are not a measure required by IFRS accounting standards. [IFRS 18.BC330].

The disclosure requirements for MPMs (see section 4.3 below) also suggest that the IASB envisaged MPMs to include measures calculated using a 'non-IFRS' basis as it requires an entity to disclose when the calculation of the measure "differs from accounting policies required or permitted by IFRS Accounting Standards". [IFRS 18.B134(b)(ii)]. Rather than prohibiting such measures, IFRS 18 requires accurate labelling and MPMs to be described in a clear and understandable manner to ensure such measures comply with the general requirements for information included in financial statements and are not misleading. [IFRS 18.123, IFRS 18.B134, IFRS 18.BC358].

Therefore, if a subtotal which meets the definition of an MPM in IFRS 18 is used in public communication outside the financial statements, the MPM disclosures within the notes to the financial statements are required, even if the management-defined measure includes adjustments which are not in accordance with IFRS accounting standards.



### How we see it

While the inclusion of disclosure about 'what if' alternative performance measures used by management is not optional if these measures meet the definition of an MPM, regulators might object to the use of certain measures, if they consider these to be misleading or lack neutrality.

If a regulator prohibits the use of a particular measure within public communications and requires its removal, such a measure would no longer meet the definition of an MPM (as it is no longer 'used in public communications').

For the purpose of defining MPMs, public communication excludes oral communications, written transcripts of oral communications, and social media posts

## 4.2.2 Meaning of 'public communications'

A subtotal only meets the definition of an MPM if it is used by an entity in public communications outside the financial statements.

Public communications include: [IFRS 18.B119]

- Management commentary
- Press releases
- Investor presentations

However, for the purpose of defining MPMs, public communication excludes:

- Oral communications
- Written transcripts of oral communications
- Social media posts

The Board decided to exclude these categories of communication in response to concerns raised by some stakeholders during the development of the standard that these types of communications were the most challenging to monitor. The Board expects that removing these categories from the scope of 'public communications' will reduce the costs of applying the requirements by eliminating the need to search these forms of communications. [IFRS 18.BC336].

The Board considered providing specific requirements for private entities since they are less likely to have public communications. However, the Board concluded that the requirements are intended to provide transparency and discipline over measures communicated to users outside the financial statements, regardless of whether the entity is public or private.

Therefore, the MPM requirements apply to all entities applying IFRS accounting standards and, if a private entity communicates subtotals that meet the definition of MPMs, that entity would be subject to the MPM requirements. It follows that, if an entity does not communicate measures of financial performance outside its financial statements, the MPM requirements would not apply, and no additional disclosures would be required. [IFRS 18.BC342].

The Board observed, in response to stakeholder questions during the development of the standard, that the requirements for MPMs relate to performance for the same period as is covered by the financial statements. [IFRS 18.BC337]. To make this clear, the Board decided to specify in IFRS 18 that MPMs relate to the same reporting period as the financial statements. Specifically: [IFRS 18.B120]

(a) A subtotal that relates to the interim financial statements, but not to the annual financial statements, is only an MPM in the interim financial statements

And

(b) A subtotal that relates to the annual financial statements, but not to interim financial statements, is only an MPM in the annual financial statements



### How we see it

While MPM disclosure is also required in interim financial statements (see section 5.4 below), the subtotals that are considered MPMs could differ between the interim and annual financial statements.

While it is common for entities to issue public communications, such as press releases, before or at the date the financial statements are authorised for issue, some public communications (for example, investor presentations) might not be made available until after the financial statements are authorised for issue. The Board decided to require

an entity that routinely issues public communications containing performance measures after the financial statements are authorised for issue, to consider what measures it included in the previous period's public communications when identifying MPMs for the current period.

[IFRS 18.B121, IFRS 18.BC339].

However, an entity is not required to include a measure identified in the prior period as an MPM where evidence indicates it will no longer be included in the public communications to be issued for the current reporting period. When a measure was previously disclosed as an MPM but is not identified as an MPM for the current reporting period, the disclosure requirements for a change to, or cessation of, an MPM in IFRS 18.124 apply (see section 4.3.5 below). [IFRS 18.B122, IFRS 18.BC340].

### 4.2.3 Management's view

The Board decided to include the concept "management's view of an aspect of the entity's financial performance" in the definition of an MPM since making information about management's view of an entity's performance available to users was the reason for the Board developing the MPM requirements in the first place. Therefore, 'management-defined performance measures' are limited to those measures that communicate management's view of an aspect of the financial performance of the entity as a whole. [IFRS 18.BC343].

#### 4.2.3.A Management's view versus management's performance

The focus of MPMs is on communicating an aspect of an entity's performance rather than communicating management's performance. As a result, a subtotal only used to measure management's performance (for example, a measure used internally for the purpose of management remuneration but not used externally to communicate management's view of an aspect of an entity's performance) would not meet the definition of an MPM. [IFRS 18.BC344]. However, in some cases, a measure used externally to communicate management's view of an aspect of the entity's performance might be used for the purpose of assessing management's performance, and thus the two could overlap.

#### 4.2.3.B Entity as a whole



#### How we see it

Since the definition of an MPM refers to the entity as a whole, the focus is at an entity-level (for individual or stand-alone financial statements) or at group level (for consolidated financial statements), rather than just at part of the entity or group. Therefore, a measure used by a listed subsidiary in its public communications that meets the definition of an MPM at the subsidiary level would not necessarily meet the definition of an MPM at the consolidated group level.

To meet the definition of an MPM, the measure must communicate management's view of an aspect of the financial performance of the entity as a *whole* to users. For example, a subtotal of income and expenses related to a reportable segment (disclosed in accordance with IFRS 8) that does not provide information about an aspect of the financial performance of the entity as a whole, does not meet the definition of an MPM.

[IFRS 18.B114].

However, in some cases, a subtotal of income and expenses related to a reportable segment could provide information about an aspect of the financial performance of the entity as a whole and, therefore, meet the definition of an MPM. An indicator of this is where a reportable segment contains a single main business activity of an entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss. [IFRS 18.B115].

## Frequently asked questions

### Question 4-4: When would a reportable segment profit measure represent 'an aspect of the financial performance of the entity as a whole'?

Since an operating segment is defined<sup>29</sup> as a 'component' of an entity, it appears unlikely that information about a segment would reflect the performance of the **entity as a whole**. However, the Board observed that while a subtotal related to a reportable segment (disclosed under IFRS 8) used in public communications might not provide information about the performance of the entity as a whole, it could in certain circumstances. Therefore, the Board decided not to exclude reportable segment measures from the definition of an MPM, but rather to clarify that in order for any measure to be an MPM, it must reflect management's view of an aspect of the performance of the **entity as a whole**. [IFRS 18.BC345, IFRS 18.BC346].

It is, therefore, clear that a reportable segment profit measure could, in certain circumstances, meet the definition of an MPM. But since there is limited guidance in the standard, an entity needs to apply judgement in making the assessment of whether such a reportable segment profit measure is also an MPM.



### How we see it

An entity needs to apply judgement, based on its particular facts and circumstances, to assess whether a reportable segment profit measure used outside the financial statements is also an MPM.

If a reportable segment profit measure is also an MPM, the disclosure requirements for MPMs (see section 4.3 below) will apply, including the requirement to provide all disclosure about MPMs within a single note.

The following situations may indicate that a reportable segment profit measure represents an aspect of the financial performance of the entity as a whole:

- (a) The statement of profit or loss presents a subtotal related to a reportable segment that contains a single main business activity of the entity
- (b) The measure represents the total of all segments combined
- (c) The entity only has one segment
- (d) The measure is unique to only one of the entity's segments

The situation in (a) is based on the example included in the standard, [IFRS 18.B115], while the situations in (b) - (d) above are based on the Board's discussion, and related Staff paper,<sup>30</sup> while developing the standard.

<sup>29</sup> Refer to Appendix A to IFRS 8.

<sup>30</sup> [IASB Agenda paper 21B](#), *Issues related to Management Performance Measures and IFRS 8 Operating Segments*, May 2023, available on the IFRS Foundation's website.

IFRS 18 contains a **rebuttable presumption** that a subtotal of income and expenses used in public communications outside the entity's financial statements communicates to users management's view of an aspect of the financial performance of the entity as a whole

#### 4.2.3.C Rebuttable presumption

The standard contains a *rebuttable presumption* that a subtotal of income and expenses used in public communications outside the entity's financial statements communicates to users management's view of an aspect of the financial performance of the entity as a whole. [IFRS 18.119].

An entity can only rebut this presumption (i.e., assert that a subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole) if it is able to demonstrate, using reasonable and supportable information that: [IFRS 18.120, IFRS 18.B124]

(1) The subtotal does not communicate management's view of an aspect of the financial performance of the entity as a whole

And

(2) There is a reason for using the subtotal in the entity's public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole

The Board felt it is reasonable to expect that an entity includes a subtotal of income and expenses in public communications for the purposes of communicating management's view of an aspect of the entity's financial performance to users. Where this condition is not true, reasonable and supportable information is required to rebut the presumption. [IFRS 18.BC349].

The rebuttable presumption applies to the subtotal as a whole and not to individual items of income and expense that make up that subtotal. Therefore, an entity cannot rebut the presumption based on information indicating that an individual item (or items) of income or expense within the subtotal does not represent management's view. [IFRS 18.B130].

Instead of specifying types of measures for which it would be appropriate to rebut the presumption, the Board provided examples of reasonable and supportable information that could support rebutting the presumption that the subtotal communicates management's view of an aspect of the financial performance of an entity as a whole: [IFRS 18.B125, IFRS 18.BC351]

- (i) The subtotal is communicated without prominence
- (ii) The subtotal is not used internally to assess or monitor the entity's financial performance

Each of these examples is discussed in more detail further below.

IFRS 18 also includes examples of 'reasonable and supportable information' that indicate the entity has a reason, other than to communicate management's view, for using a subtotal in its public communications: [IFRS 18.B129]

- (a) The subtotal is required to be included in a public communication by law or regulation
- (b) The subtotal communicates performance related to financial statements prepared under another accounting framework (i.e., other than IFRS accounting standards)
- (c) The subtotal is used in a public communication on the request of an external party
- (d) The subtotal is used to communicate information other than financial performance

In practice, entities often include a measure in their public communications as a result of a regulatory requirement or on the request of investors (examples (a) and (c) above). However, in some cases, these measures also communicate management's view despite originally being included for regulatory reasons or at the request of investors and, in these instances, the assumption cannot be rebutted. [IFRS 18.BC351].

The other two examples are likely to be less common in practice since a subtotal of income and expenses would typically be used as a financial measure (example (d) above) and it is likely that measures calculated under another accounting framework (example (b) above) will be provided due to a regulatory requirement or on the request of investors.

**(i) The subtotal is communicated without prominence**

Whether a subtotal is communicated without prominence is a matter of fact based on the particular circumstances and will require the use of judgement. The application guidance in IFRS 18 includes some factors to consider in making this judgement: [IFRS 18.B126]

**Extract from IFRS 18**

|      |  |
|------|--|
| B126 | Whether an entity communicates a subtotal without prominence is a matter of judgement based on a number of factors, for example: <ul style="list-style-type: none"><li>(a) the extent of references to the subtotal-few references indicate a lack of prominence, numerous references indicate prominence; and</li><li>(b) the content of commentary or analysis about or relying on the subtotal, for example:<ul style="list-style-type: none"><li>(i) a description of the subtotal as information that does not communicate management's view and that is provided only in response to frequent requests from some users of financial statements indicates a lack of prominence;</li><li>(ii) use of the subtotal to support management analysis and commentary on the entity's financial performance and to provide explanations of the reasons for changes in the subtotal from period to period indicates prominence; and</li><li>(iii) a comparison of the subtotal to competitors' subtotals or industry benchmarks indicates prominence.</li></ul></li></ul> |
|------|--|

**(ii) The subtotal is not used internally**

Management's use of a subtotal to assess or monitor an aspect of the entity's financial performance as a whole would be an indicator that the subtotal communicates management's view of an aspect of the financial performance of the entity as a whole. However, since the definition of an MPM requires it to be used in public communications outside the financial statements, when management only uses a subtotal internally without including it in its public communications, that subtotal does not meet the definition of an MPM. [IFRS 18.B127].

An entity might also adjust a subtotal included in its public communications for its internal assessment or monitoring of the entity's financial performance by management. In such cases, judgement will be required to assess whether the subtotal included in the entity's public communications externally is sufficiently similar to the subtotal used internally. The more similar the subtotals are, the more likely it is that the subtotal used in the entity's public communications communicates management's view of an aspect of the financial performance of the entity as a whole to users. [IFRS 18.B128].

#### 4.2.3.D Changes to public communications

An entity could change whether it uses a subtotal to communicate to users management's view of an aspect of the financial performance of the entity as a whole, causing the subtotal to become, or cease to be, an MPM. For example, an entity required by regulation to report a particular subtotal that initially did not communicate management's view of an aspect of the financial performance of the entity as a whole, could over time start using the measure internally to assess and monitor the entity's financial performance or expand the commentary and explanations in its public communications beyond the regulatory requirements, resulting in the measure meeting the definition of an MPM.

Judgement will be required to identify whether a measure not identified as an MPM in the prior period has become one, or whether a measure previously identified as an MPM has ceased to be one. [IFRS 18.B131].

Such a change to a measure becoming, or ceasing to be, an MPM will trigger required disclosures (see section 4.3.5 below).

#### 4.2.4 Subtotals that are not MPMs

IFRS 18 explicitly notes that subtotals required by an IFRS accounting standard, including IFRS 18 itself, are not MPMs and IFRS 18 also lists other subtotals that are not MPMs.

##### 4.2.4.A Subtotals specifically required by IFRS accounting standards

The Board also decided to exclude subtotals specifically required by an IFRS accounting standard from the definition of an MPM. [IFRS 18.117]. Since these subtotals are required by IFRS accounting standards, they are by definition not 'management-defined'. Such subtotals include those required by IFRS 18 (see section 3.4 above): [IFRS 18.69]

- Operating profit or loss
- Profit or loss before financing and income taxes
- Profit or loss

#### Frequently asked questions

##### Question 4-5: Can additional subtotals included in the statement of profit or loss applying IFRS 18.24 meet the definition of an MPM?

IFRS 18 requires an entity to present an additional subtotal within the statement of profit or loss, if such a subtotal is necessary for that statement to present a useful structured summary (see section 2.1.1B above). [IFRS 18.24].

Since IFRS 18 excludes from the definition of an MPM, subtotals of income and expenses that are **specifically** required by IFRS accounting standards, [IFRS 18.117(c)], some could read this as including additional subtotals required by IFRS 18.24. However, IFRS 18.24 indicates that when an entity presents additional subtotals, these additional subtotals must "be displayed no more prominently than the totals and subtotals required by IFRS Accounting Standards" suggesting that such additional subtotals are separate from those **specifically** required by IFRS accounting standards. [IFRS 18.24(d)].



#### How we see it

In our view, an additional subtotal that is considered necessary for the statement of profit or loss to provide a useful structured summary, while required generally by IFRS 18.24, is not '**specifically**' required. Such a subtotal will, therefore, meet the definition of an MPM, if it complies with the other elements of the definition.

Operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36 is excluded from the definition of an MPM

#### 4.2.4.B Subtotals specifically excluded

Some subtotals are not required or defined by IFRS accounting standards, but are commonly used by entities in their financial statements and are well understood by users (for example, a gross profit subtotal). The Board is of the view that “providing the management-defined performance measures disclosures for such measures would not provide useful information because their purpose and relationship to totals or subtotals defined by IFRS Accounting Standards are well understood or would usually be apparent from their presentation in the statement(s) of financial performance.” [IFRS 18.BC362]. Therefore, the standard includes a list of such subtotals, in IFRS 18.118, and specifically excludes these subtotals from the definition of an MPM: [IFRS 18.118]

- (a) Gross profit or loss (revenue minus cost of sales) and similar subtotals
- (b) Operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36 (also referred to as ‘OPDAI’)
- (c) Operating profit or loss and income and expenses from all investments accounted for using the equity method
- (d) For an entity that applies the accounting policy choice to present income and expense from liabilities that do not relate to the provision of financing to customers in the operating category (see section 3.3.3.C and section 3.3.3.G above), a subtotal comprising operating profit or loss and all income and expenses classified in the investing category
- (e) Profit or loss before income taxes
- (f) Profit or loss from continuing operations

##### I Subtotals similar to gross profit

As noted above, subtotals similar to gross profit are excluded from the definition of an MPM. [IFRS 18.118]. However, while it is a commonly presented line item, the term ‘gross profit’ is not defined in IFRS accounting standards, nor is it a subtotal required to be presented by IFRS 18. The term ‘cost of sales’ is similarly undefined – see section 3.4.2.C above.

The standard does explain that a subtotal is similar to gross profit when it represents the difference between a type of revenue and the directly related expenses incurred in generating that revenue and the standard provides the following, non-exhaustive, list as examples of such subtotals: [IFRS 18.B123]

##### Extract from IFRS 18

###### ***Subtotals similar to gross profit***

- B123 In accordance with paragraph 118(a), subtotals similar to gross profit are not management-defined performance measures. A subtotal is similar to gross profit when it depicts the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:
- (a) net interest income;
  - (b) net fee and commission income;
  - (c) insurance service result;
  - (d) net financial result (investment income minus insurance finance income and expenses); and
  - (e) net rental income.

##### II EBITDA

During the deliberations, the Board considered defining ‘earnings before interest, tax, depreciation and amortisation’ (EBITDA), but ultimately decided against it. The Board noted that while EBITDA is one of the most commonly

used alternative performance measures, it is not used in some industries (such as banking and insurance) and there is no consensus in practice on what EBITDA represents, other than serving as a starting point for various analyses. [IFRS 18.BC363].

The Board acknowledged that an EBITDA measure could meet the definition of an MPM and concluded that a measure calculated as 'operating profit before depreciation, amortisation and impairments within the scope of IAS 36' would provide similar information to many of the EBITDA measures currently used in practice. However, the Board decided against describing this subtotal as 'EBITDA' since this would implicitly equate 'operating profit or loss' with 'earnings before interest and tax' and this might not always be the case. For example, under IFRS 18 'operating profit' excludes income and expenses classified in the investing category and, therefore, might exclude income that some consider to be 'earnings'. [IFRS 18.BC365]. However, the label 'EBITDA' could be an accurate description of the corresponding measure if, for example, all of an entity's earnings are included in operating profit, since it has no income and expenses that are required to be included in the investing category. In such cases, the standard would not prevent an entity from labelling the subtotal 'operating profit before depreciation, amortisation and specified impairments within the scope of IAS 36' as 'EBITDA'. [IFRS 18.BC366].

### III Operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36

In the Board's view, if an entity presented a subtotal for 'operating profit before depreciation, amortisation and impairments within the scope of IAS 36', the costs of the additional information required by the MPM disclosures would exceed its benefits since the measure is already well defined. Therefore, the Board decided to exclude this subtotal from the definition of an MPM. [IFRS 18.BC364].

#### Frequently asked questions

##### Question 4-6: Does the subtotal 'operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36' exclude impairment reversals?

As noted above, the IASB decided to exclude the subtotal 'operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36' from the definition of an MPM. [IFRS 18.118(a)]. This raises the question of whether this subtotal must exclude impairment reversals recognised applying IAS 36, if the subtotal is presented.



#### How we see it

In our view, while the description of the subtotal in IFRS 18 does not explicitly refer to impairment reversals, 'impairments within the scope of IAS 36' includes both impairments and reversals, in line with the scope of the guidance in IAS 36.

### IV Income and expenses from *some* equity accounted investees

As noted above, IFRS 18.118(c) specifically excludes a subtotal representing "operating profit or loss and income and expenses from *all* investments accounted for using the equity method" (emphasis added) from the definition of an MPM. [IFRS 18.118(c)]. However, this exclusion would not extend to a subtotal which only includes the income and expenses from *some* equity accounted investees (see Question 3-40 in section 3.3.5.A above). Such a subtotal, for only certain equity accounted investees, could therefore be an MPM. [IFRS 18.BC367].

## 4.3 Disclosure of MPMs

### 4.3.1 Objective

The standard includes the following objective for the MPM disclosures: *[IFRS 18.121]*

#### Extract from IFRS 18

- 121** The objective of the disclosures for management-defined performance measures 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.

The Board concluded that transparency about MPMs is enhanced by clearly stating the purpose and limitations of an MPM. Since an MPM reflects management's judgement about what is useful to users, sufficient information about that judgement is required for users to understand the information provided by the MPM and how it faithfully represents an aspect of the entity's financial performance. *[IFRS 18.BC377]*.

### 4.3.2 Information to be disclosed

IFRS 18 requires an entity to disclose information about all its MPMs in a single note to the financial statements and requires that this note includes a statement that MPMs provide management's view and are not necessarily comparable to MPMs of other entities with the same, or similar, labels. *[IFRS 18.122]*.

The standard requires that each MPM is labelled and described in a clear and understandable manner and specifically requires the entity to make the following disclosures for each MPM: *[IFRS 18.123]*

- (a) A description of the aspect of the entity's financial performance that, in management's view, is communicated by the MPM, including an explanation of why management believes that the MPM provides useful information about the entity's financial performance
- (b) How the MPM is calculated
- (c) A reconciliation to the most directly comparable total or subtotal specifically required by IFRS accounting standards or one of the subtotals listed in IFRS 18.118 (i.e., those which are not required, or defined, by IFRS accounting standards but which are commonly used by entities and well understood by users) (see section 4.2.4 above)
- (d) The income tax effect and the effect on non-controlling interests for each reconciling item disclosed in the reconciliation required by (c) above
- (e) A description of how the entity determined the income tax effect required by (d) above

Comparative numbers are also required for all MPM disclosures. *[IFRS 18.31]*

Any changes in MPMs need to be explained and comparative information must be restated to reflect these changes, unless it is impracticable to do so (see section 4.3.5 below).

Each of these requirements is discussed in more detail below.

The standard requires that each MPM is labelled and described in a clear and understandable manner

### Management's statement on the use of MPMs

An entity is required to include in its MPM note, a statement that MPMs provide management's view of an aspect of the financial performance of the entity as a whole and are not necessarily comparable with measures provided by other entities that have a similar label or description. [IFRS 18.122].

While the Board agreed MPMs can provide useful information, these measures are, by definition, entity-specific and, therefore, not necessarily comparable across entities, [IFRS 18.BC326], and transparency about MPMs is enhanced by an entity clearly stating the purpose and limitations of an MPM. [IFRS 18.BC377].

### Labelling MPMs

An entity is required to label and describe each MPM in a clear and understandable manner that does not mislead users. [IFRS 18.123]. To meet this requirement, an entity will need to disclose information that enables users to understand which items of income or expense are included in, and which are excluded from, the particular subtotal.

The standard expands on this requirement by requiring an entity to label and describe each MPM in a way that faithfully represents its characteristics in accordance with the aggregation and disaggregation guidance in IFRS 18 (see section 2.2 above) by: [IFRS 18.B135]

- (a) Labelling the measure in a way that represents the characteristics of that particular subtotal (for example, using the label 'operating profit before non-recurring expenses' only for a subtotal that does in fact exclude all expenses identified as non-recurring by the entity)
- (b) Explaining the meaning of the terms used in the description that are necessary to understand the aspect of financial performance being communicated (for example, explaining how the entity defines 'non-recurring expenses' in its specific circumstances)

If the calculation of the MPM differs from the accounting policies the entity uses for the items in its statement(s) of financial performance, it is required to state that fact and disclose the calculations it used for the MPM.

Additionally, where the calculation of the MPM also differs from accounting policies permitted or required by IFRS accounting standards, the entity must state that fact and where necessary explain the meaning of the terms used in calculating the MPM (see (b) above). [IFRS 18.B134].

### 4.3.3 Reconciliation

IFRS 18 requires an entity to provide a reconciliation of each MPM to the most directly comparable total or subtotal specifically required by an IFRS accounting standard or a subtotal listed in IFRS 18.118 (see section 4.2.4 above). [IFRS 18.123(c)]. For example, an entity that discloses in the notes an MPM of 'adjusted operating profit or loss' will be required to reconcile that measure to the operating profit or loss total required to be presented under IFRS 18. [IFRS 18.B136].

The Board decided to require such a reconciliation since it provides important information helping users to: [IFRS 18.BC378]

- Understand how an MPM relates to the totals or subtotals required by IFRS accounting standards
- Understand how the MPM compares with similar measures provided by other entities
- Judge whether to make their own adjustments to the measure

An entity applies the normal principles of aggregation and disaggregation to the reconciling items in order to decide the level of detail required. [IFRS 18.B136].

For each reconciling item, an entity is required to disclose: *[IFRS 18.B137]*

- (a) The line item presented in the statement(s) of financial performance that include the amount(s) making up the reconciling item
- (b) A description of how the item:
  - (i) Is calculated
  - And
  - (ii) Contributes to the MPM providing useful information (see below)

The Board decided to require the disclosure under (a) above since the fieldwork conducted while developing the standard indicated that the information provided by the reconciliation could vary depending on both the form of the reconciliation and the amount of detail included. The Board decided that linking the reconciling items with the related line items presented in the statement(s) of financial performance would help users understand the relationship between an MPM and the most directly comparable total or subtotal specifically required by an IFRS accounting standard or one of the subtotals listed in IFRS 18.118. *[IFRS 18.BC380]*.

The disclosure under (b) above is required, for each reconciling item, if it is necessary in order to explain (see section 4.3.2 above):

- (1) What aspect of the entity's financial performance is being communicated by the MPM and why management believes the MPM provides useful information about the entity's financial performance
- And/or
- (2) How the MPM is calculated

This could be the case if there is more than one reconciling item and each item is calculated on a different basis or contributes to providing useful information in a different way. For example, an entity could exclude several items of expense from an MPM, some because they are considered outside management's control and others because they are considered non-recurring. In order to explain how the MPM provides useful information in such a case, the disclosure would need to distinguish which items contribute to which type of adjustment. *[IFRS 18.B138]*.

Conversely, a single explanation could be applicable to more than one item, or even all the reconciling items collectively. For example, an entity might calculate an MPM by excluding several items of income or expense based on an entity-specific application of 'non-recurring'. In such a case, the requirements in (b) above could be satisfied by a single explanation that applies to all reconciling items including the entity's definition of 'non-recurring' (i.e., what items it considers to be non-recurring and why). *[IFRS 18.B139]*.

The standard allows an entity to reconcile an MPM to a total or subtotal listed in IFRS 18.118; this is the case even if the entity does not present that total or subtotal in its statement(s) of financial performance.

In such cases, in addition to the reconciliation of the MPM to the total or subtotal listed in IFRS 18.118, the entity: *[IFRS 18.B140]*

- (1) Is required to provide a reconciliation from that total or subtotal (listed in IFRS 18.118) to the most directly comparable total or subtotal actually presented by the entity in its statement(s) of financial performance
- But
- (2) Is not required to disclose the income tax effect and the effect on non-controlling interest for any of the reconciling items between the total or subtotal listed in IFRS 18.118 and the total or subtotal actually presented by the entity in its statement(s) of financial performance

The Board did not stipulate a specific format (for example, a table with reconciling items presented in columns) for the reconciliation since, in the Board's view, the most appropriate format for the reconciliation will depend on the MPM. *[IFRS 18.BC382]*.

The standard allows an entity to reconcile an MPM to a total or subtotal listed in IFRS 18.118; this is the case even if the entity does not present that total or subtotal in its statement(s) of financial performance

#### 4.3.3.A Income tax effect and the effect on non-controlling interests

An entity is required to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation between an MPM and the most directly comparable total or subtotal specifically required by an IFRS accounting standard, or one of the subtotals listed in IFRS 18.118. [IFRS 18.B141]. The Board decided to require this disclosure for each reconciling item because it gives users the necessary information to calculate their own adjusted earnings per share measure based on only the adjustments they want to consider in their analyses. [IFRS 18.BC385].

##### Simplified approach

During the development of the standard, some preparers raised concerns that disclosing the tax effect for each reconciling item could be complex and costly if it had to be calculated in accordance with IAS 12. However, users indicated that high-level information about the tax effects of each reconciling item would meet their needs. Therefore, the Board decided to allow a simplified approach for calculating the income tax effect of the reconciling items in order to alleviate the costs to preparers. [IFRS 18.BC386].

Under this simplified approach, an entity determines the income tax effect of each reconciling item by calculating the income tax effects for the underlying transaction(s) at the statutory tax rate(s) applicable to the particular transaction(s) in the relevant tax jurisdiction(s). [IFRS 18.B141].

##### Alternative approaches

Alternatively, the standard also allows an entity to calculate the tax effects for the underlying transaction(s): [IFRS 18.B141]

- Based on a reasonable *pro rata* allocation of the entity's current and deferred tax in the relevant tax jurisdiction(s)

Or

- Using another method, provided it achieves a more appropriate allocation in the circumstances

The Board decided to allow the use of alternative approaches for calculating the tax effects since limiting the methods would restrict an entity's judgement in providing the best possible information in the circumstances, which could reduce the usefulness of the information provided. This approach is similar to the approach set out in IAS 12.63 for determining the income tax effect on items of other comprehensive income.<sup>31</sup> [IFRS 18.BC387].

IFRS 18.123(e) requires an entity to disclose a description of how it determined the income tax effect, discussed above, for the reconciling items it discloses. [IFRS 18.123(e)]. If an entity uses more than one method to calculate the income tax effects of its reconciling items, the entity is required to disclose how it determined the tax effects for each reconciling item. [IFRS 18.B142].

#### 4.3.3.B Example of a reconciliation

The Illustration below is based on the example included in the Illustrative Examples to IFRS 18 and shows XYZ Group's disclosures for its MPM. [IFRS 18.IE8]. In the interest of brevity, the comparative table has not been provided in the Illustration below, but comparative numbers are required for all MPM disclosures. [IFRS 18.31].

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31 See International GAAP® 2026, Chapter 29, section 10. Available on [ey.com/IFRS](http://ey.com/IFRS).

For the purpose of this Illustration, assume that XYZ Group has:

- (a) Included in its disclosures a statement that adjusted operating profit provides management's view of XYZ Group's operating profit and profit and that this measure is not necessarily comparable with measures sharing similar labels or descriptions provided by other entities (see section 4.3.2 above)
- (b) Labelled and described its MPM in a clear and understandable manner by explaining that it has adjusted operating profit and profit for non-recurring items of income or expense that it does not expect to arise for several future annual reporting periods (see section 4.3.2 above)
- (c) Included a description of the aspect of financial performance the MPM communicates. The entity explained that, in management's view, adjusted operating profit provide useful information about XYZ Group's financial performance because it provides information that is helpful in understanding trends in underlying profitability (see section 4.3.2 above)
- (d) Explained how it calculated adjusted operating profit by explaining the specific adjusting items and it has cross-referred its adjusting items to related notes in its financial statements and provided a detailed explanation of restructuring expenses in its note on MPMs (see section 4.3.3 above)
- (e) Provided a reconciliation between operating profit and adjusted operating profit - that is, a reconciliation to the most directly comparable subtotal presented in XYZ Group's statement of profit or loss (see section 4.3.3 above)
- (f) Included for each of its adjusting items the income tax effect, the effect on non-controlling interests and the amount(s) related to each line item in XYZ Group's statement of profit or loss (see section 4.3.3.A above).
- (g) Included a description of how it determined the income tax effects (see section 4.3.3.A above)



#### **Illustration 4-1: MPMs note**

##### **XYZ Group's management-defined performance measures**

XYZ Group uses the management-defined performance measure, adjusted operating profit, in its public communications. This measure is not specified by IFRS accounting standards. Therefore, it might not be comparable to apparently similar measures used by other entities.

To provide management's view of XYZ Group's financial performance, operating profit has been adjusted for items of income or expense that XYZ Group does not expect to arise for several future annual reporting periods. XYZ Group's management believes adjusting operating profit for such items provides information that is helpful in understanding trends in XYZ Group's underlying profitability.

XYZ Group generally adjusts for these items of income or expense:

- Impairment losses (or reversals thereof) of property, plant and equipment (including right-of-use assets) and intangible assets (for information related to impairments, refer to Note X Property, plant and equipment, Note Y Intangible assets and Note Z Research and development expenses)
- Restructuring expenses (for information related to restructuring expenses, refer to Note U Employee benefits and Note V General and administrative expenses)
- Non-recurring litigation expenses (for information related to litigation expenses, refer to Note W Provisions and Note V General and administrative expenses)
- Gains or losses on disposal of property, plant and equipment and of intangible assets (for information related to disposal of property, plant and equipment and intangible assets, refer to Note X Property, plant and equipment, Note Y Intangible assets and Note T Other operating income)
- Gains or losses on disposal of subsidiaries, associates and joint ventures

XYZ Group assesses non-recurrence of litigation expenses on a case-by-case basis. XYZ Group generally categorises litigation expenses arising from intellectual property disputes, regulatory violations and employee claims as 'non-recurring'. This classification is based on XYZ Group's proactive approach of having in place measures designed to prevent such events from occurring.

#### Management-defined performance measures 20X2

| (in thousands of CU)  |  | Income tax expense: | Profit attributable to NCI |
|---|--|---------------------|----------------------------|
| <b>Operating profit (IFRS-specified)</b>  | <b>57,000</b>  |                     |                            |
| Gains on disposal of property, plant and equipment (included in 'Other operating income') | (1,800)  | 297                 | -                          |
| Impairment losses:  | 6,100  | -                   | 305                        |
| ▪ Included in 'Research and development expenses'   | 1,600  |                     |                            |
| ▪ Included in 'Goodwill impairment loss'  | 4,500  |                     |                            |
| Restructuring expense (included in 'General and administrative expenses')                 | 3,800  | (589)               | 161                        |
| <b>Adjusted operating profit (MPM)</b>  | <b>65,100</b>  |                     |                            |
| <b>Impairment losses</b>  | Impairment losses incurred in 20X2 did not yield any tax benefits because they were not eligible for tax deductions in Country A and Country B.  |                     |                            |
| <b>Restructuring expenses</b>   | The restructuring expenses in 20X2 are related to XYZ Group's restructuring programme 'Apollo 20X2'. These expenses include redundancy expenses, employee retraining expenses and relocation expenses, all related to the closure of several factories in Country C. The tax effect of these restructuring expenses is calculated based on the statutory tax rate applicable in Country C at the end of 20X2, which was 15.5%. |                     |                            |
| <b>Gains on disposal of property, plant and equipment</b>                                 | The tax effect of gains on disposal of property, plant and equipment is calculated based on the statutory tax rate applicable in Country D at the end of 20X2, which was 16.5%.  |                     |                            |

#### 4.3.4 All required MPM disclosures in a single note

The standard requires that an entity includes all the required information about MPMs in a single note to the financial statements. [IFRS 18.122]. The Board decided this will improve the transparency of those measures by: [IFRS 18.BC369]

(a) Providing MPMs in the same place as the calculations, explanations and reconciliations necessary to understand those MPMs

And

(b) Helping users easily locate all the information about MPMs

The Board decided not to specify that an entity can comply with the requirements by cross-reference since, if an entity uses cross-referencing, the information would be fragmented between several locations, possibly reducing transparency by making it more difficult to locate the information and understand the financial statements as a whole.

The Board decided that an explicit prohibition against cross-referencing is not required as common practice under IFRS accounting standards is only to cross-refer if an IFRS accounting standard specifically allows it. [IFRS 18.BC370, IFRS 18.BC371]. This raises the question of whether an entity, in an effort to avoid duplication, is allowed to combine MPM disclosures with other information in the same note. This is addressed in IFRS 18.B132:

The standard requires that an entity includes all the required information about MPMs in a single note to the financial statements

## Extract from IFRS 18

**B132** Paragraph 122 requires an entity to include in a single note all information about management-defined performance measures required by paragraphs 121-125. If an entity also discloses other information in that note, the information in the note shall be labelled in a way that clearly distinguishes the information required by paragraphs 121-125 from the other information.

The standard does not prohibit an entity from including additional information in the note on MPMs; in fact, IFRS accounting standards require disclosure of additional information when compliance with the specific requirements in IFRS accounting standards is insufficient to enable users to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance. However, the Board concluded that it was important to separately identify the required information about MPMs from other information included in the financial statements, so that it is clear which measures are subject to the MPM requirements. *[IFRS 18.BC373]*.

Therefore, if an entity also discloses other information in the same note, the MPM information needs to be labelled in such a way that it can be clearly distinguished from the other information. *[IFRS 18.B132]*. For example, where the reportable segment information of an entity applying IFRS 8 includes an MPM, the entity could disclose the required MPM information in the same note as the other reportable segment information, provided the entity either: *[IFRS 18.B133]*

- (a) Includes the required information about MPMs for all its MPMs in that note and labels the information in a way that clearly distinguishes the MPM information required by IFRS 18 from the other information required by IFRS 8
- Or
- (b) Provides a separate MPM note that includes the required information for all of the entity's MPMs, thereby duplicating the MPM information already included in the reportable segment note

### 4.3.5 Changes to MPMs

When an entity changes how it calculates an MPM, starts using a new MPM, stops using a previously disclosed MPM, or changes how it determines the income tax effects of any items disclosed in the reconciliation required for each MPM, it must disclose: *[IFRS 18.124]*

- (a) An explanation enabling users to understand the change, addition or cessation and its related effects
- (b) The reasons for the change, addition or cessation
- And
- (c) Restated comparative information reflecting the change, addition or cessation unless it is impracticable to restate comparatives

These disclosures are based on the information required by IAS 8 if an entity changes its accounting policies since the Board concluded that similar information would be useful to users if an entity makes changes to its MPMs. However, the Board stated that the choice of an MPM, including how the measure is calculated or how the entity calculates the income tax effects of reconciling items, is not an accounting policy choice as defined in IAS 8 and, therefore, the disclosure requirements in IAS 8 do not apply. *[IFRS 18.BC388]*. The standard clarifies that while an entity's selection of an MPM is not an accounting policy choice, an entity is still required to apply the requirements in IAS 8.50-53 when assessing whether it is impracticable to restate comparative information. *[IFRS 18.124]*.

If an entity is not able to disclose the restated comparative information required by IFRS 18.124(c) because it is impracticable to do so, the entity must disclose that fact. [IFRS 18.125].

### Frequently asked questions

**Question 4-7: Does an entity that ceases to present an MPM in the current period need to disclose the reconciliation for that MPM in the comparatives?**

IFRS 18 requires an entity to restate comparatives on ceasing to use a particular MPM (i.e., when an entity stops using a particular MPM in public communications outside the financial statements). [IFRS 18.124(c), IFRS 18.B131, IFRS 18.BC388-BC390]. In practice, this would generally result in the disclosure about that MPM, including the reconciliation, being omitted from the comparative disclosures.

However, the standard does require an entity to disclose an explanation of, and the reasons for, ceasing to use a previously disclosed MPM.

[IFRS 18.124(a), IFRS 18.124(b), IFRS 18.BC338].

**Question 4-8: Does an entity that ceases to use an MPM in the first year of adoption of IFRS 18 need to disclose an explanation for that cessation?**

As noted in Question 4-7 above, IFRS 18 requires an entity to disclose an explanation of, and the reasons for, ceasing to use a previously disclosed MPM. This raises the question of whether an entity that discontinues the use of a particular MPM before publishing its first set of financial statements under IFRS 18 is required to provide this explanatory disclosure.



### How we see it

In our view, no disclosure is required when an entity ceases to use a particular MPM in the year of adopting IFRS 18. This is because the disclosure requirements refer to ceasing to use a 'previously disclosed' MPM, and before the adoption of IFRS 18, MPMs were not previously 'disclosed'.

[IFRS 18.15, IFRS 18.124(c), IFRS 18.BC45].

## 4.4 Presentation of MPMs

The Board initially considered prohibiting an entity from presenting MPMs on the face of the statement(s) of financial performance, since some stakeholders were concerned that MPMs could be misleading and might otherwise be given undue prominence, but it ultimately decided against doing so. IFRS 18 requires an entity to present line items and subtotals (including line items and subtotals not specifically required by an IFRS accounting standard) in the statement(s) of financial performance if they are necessary to provide a 'useful structured summary' of the entity's income and expenses. Therefore, prohibiting an entity from presenting MPMs in the statement(s) of financial performance could prevent it from complying with this requirement. [IFRS 18.BC374].

The Board noted that an entity presenting an MPM in the statement(s) of financial performance, will need to comply with all the requirements set out in IFRS 18.24 for additional subtotals presented in the statement(s) of financial performance (see section 2.1.1.B above). An entity that presents an MPM in the statement(s) of financial performance would also need to disclose all the information required for MPMs in a single note, even if this results in duplication. [IFRS 18.BC375].

## 5 Consequential amendments to other standards

IFRS 18 introduced consequential amendments to other IFRS accounting standards. Most of the amendments are of an editorial nature, such as replacing references to IAS 1. Other more significant consequential amendments are discussed in the sub-sections below.

An entity is required to apply these consequential amendments when it applies IFRS 18. For more information on transition, refer to section 6 below.

### 5.1 IAS 7 *Statement of Cash Flows*

The amended IAS 7, once effective, will require all entities to use the 'operating profit' subtotal as the starting point for determining cash flows from operating activities under the indirect method. [IAS 7(2027).18(b)]. The Board decided to require all entities to use the same starting point for the indirect method to reduce existing diversity in practice. The use of the operating profit subtotal is expected to provide a consistent starting point, make the statement of cash flows more consistent and help investors analyse and compare companies' operating cash flows. The change in the starting point will also simplify the presentation of cash flows from operating activities as it will eliminate some reconciling items that are used at present. [IAS 7(2027).BC47].



#### How we see it

Since the current guidance in IAS 7 (before the IFRS 18 amendments) requires the use of 'profit or loss' as the starting point without defining what 'profit or loss' refers to, entities currently use 'profit (or loss) before tax' or 'profit (or loss) after tax' as a starting point for the reconciliation under the indirect method. Therefore, we expect the amendments to IAS 7 to impact most, if not all, entities.

The amendments will also remove the optionality around the classification of cash flows from dividends and interest in the statement of cash flows. That removal aims to increase comparability between entities and provide more meaningful information as currently, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in an entity's business activities. [IAS 7(2027).BC48].

#### All entities

The standard requires that cash flows from dividends paid must be included in financing cash flows because dividends paid are a cost of obtaining financing. [IAS 7(2027).33A, IAS 7(2027).BC49].

#### Entities without a specified main business activity

Entities that do not have a specified main business activity of investing in assets or providing finance to customers will be required to classify interest paid as financing activities, and interest and dividends received as cash flows from investing activities. [IAS 7(2027).34A, IFRS 18.BC53].

#### Entities with a specified main business activity

For entities with a specified main business activity (i.e., of investing in assets or providing finance to customers - discussed in section 3.3.1 above) the classification of cash flows from dividends received, interest paid and interest received in the statement of cash flows will follow the classification of the related income and expenses in the statement of profit or loss.

This applies respectively to the total cash flows from:

- (a) Dividends received
  - (b) Interest paid
- And
- (c) Interest received

This means that such entities will determine how to classify the cash flows from (a), (b) and (c) above in the statement of cash flows by referring to how the related dividend income, interest income and interest expenses are classified in the statement of profit or loss applying IFRS 18. *[IAS 7(2027).34B]*. For example, an entity with a main business activity of investing in assets will classify the total of all the cash flows from interest paid in financing activities in its statement of cash flows, if that entity classifies all of its interest expense in the financing category in its statement of profit or loss. The same requirements equally apply to the total of all interest received and the total of all dividends received respectively. *[IAS 7(2027).34C]*.

Note that (a), (b) and (c) above are assessed separately and do not all need to be classified into the same cash flow activity. *[IAS 7(2027).34D, IAS 7(2027).BC50]*. For example, an entity with a main business activity of investing in financial assets that classifies the total of all dividends received within operating activities in its statement of cash flow (in alignment with how it classifies dividend income in its profit or loss) could classify all interest paid into financing activities in its statement of cash flows (in alignment with its profit or loss classification for interest expenses). *[IAS 7(2027).34C]*.

This 'single category' approach is required even when the related income and expenses is included in more than one profit or loss category. In such cases, the entity applies an accounting policy choice to determine the 'single category' in which the total of those respective cash flows is classified. *[IAS 7(2027).34D, IAS 7(2027).BC55]*.

#### Extract from IAS 7 (as amended by IFRS 18)

34D In applying IFRS 18, an entity may be required to classify each of dividend income, interest income and interest expenses in more than one category of the statement of profit or loss. In such a case, in applying paragraph 34B the entity shall make an accounting policy choice to classify the related cash flows in one of the associated activities in the statement of cash flows. For example, if an entity classifies interest expenses in the operating category and the financing category of the statement of profit or loss, the entity would classify all its interest paid in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities.

The table below, based on Table 4 in the IASB's *Effects Analysis* of IFRS 18,<sup>32</sup> presents the comparison of the IAS 7 requirements before and after the amendments:

| Cash flow item            | Classification before amendments to IAS 7 | Classification after amendments to IAS 7             |  |
|---------------------------|---|--|--|
|                           |   | Companies without specified main business activities | Companies with specified main business activities  |
| <i>Interest received</i>  | Operating or investing                    | Investing  | A single category for the total of each type of cash flow* - operating, investing or financing |
| <i>Interest paid</i>      | Operating or financing                    | Financing  |  |
| <i>Dividends received</i> | Operating or investing                    | Investing  |  |
| <i>Dividends paid</i>     | Operating or financing                    | Financing  |  |

\* As noted above, classification of these types of cash flows for entities with a specified main business will be impacted by how the related income and expenses are classified in the statement of profit or loss.

The new requirements are illustrated below, based on the Illustrative Example A that accompanies the amended IAS 7. [IAS 7(2027).IE A].

Since this publication focuses on the new requirements introduced by IFRS 18, only the consolidated statement of financial performance and the statement of cash flow using the indirect method are presented.

The example illustrates only the current period; however, comparative information for the preceding period is required to be presented in accordance with IFRS 18.



**Illustration 5-1: A statement of cash flows for an entity without a specified main business activity**

| Consolidated statement of financial performance for the period ended 20X2 <sup>(a)</sup> |              |
|--|--------------|
| Sales  | 30,650       |
| Cost of sales  | (26,450)     |
| <i>Gross profit</i>  | 4,200        |
| Selling expenses   | (600)        |
| General and administrative expenses  | (310)        |
| <i>Operating profit</i>  | 3,290        |
| Share of equity accounted investments  | 50           |
| Investment income  | 450          |
| Foreign exchange loss  | (40)         |
| <i>Profit before financing and income taxes</i>  | 3,750        |
| Interest expenses  | (400)        |
| <i>Profit before income taxes</i>  | 3,350        |
| Income tax expense   | (300)        |
| <b><i>Profit/total comprehensive income</i></b>  | <b>3,050</b> |

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2

32 [Effect Analysis: IFRS 18 Presentation and Disclosure in Financial Statements](#), April 2024. Available on the IFRS Foundation's website.

| <b>Consolidated statement of cash flows</b>             |                   |
|---|-------------------|
| <b>Cash flows from operating activities</b>             | <b>20X2</b>       |
| Operating profit  | 3,290             |
| Adjustments for:  |                   |
| Depreciation  | 350               |
| Amortisation  | 100               |
| Operating profit before depreciation and amortisation   | <u>3,740</u>      |
| Increase in trade receivables                           | (500)             |
| Decrease in inventories                                 | 1,050             |
| Decrease in trade payables                              | <u>(1,740)</u>    |
| Cash from operating activities before income taxes      | 2,550             |
| Income taxes paid                                       | <u>(900)</u>      |
| <b>Net cash from operating activities</b>               | <b>1,650</b>      |
| <b>Cash flows from investing activities</b>             |                   |
| Acquisition of Subsidiary X, net of cash acquired       | (550)             |
| Purchase of property, plant and equipment               | (350)             |
| Proceeds from sale of equipment                         | 20                |
| Interest received                                       | 200               |
| Dividends received                                      | <u>200</u>        |
| <b>Net cash used in investing activities</b>            | <b>(480)</b>      |
| <b>Cash flows from financing activities</b>             |                   |
| Proceeds from issue of share capital                    | 250               |
| Proceeds from long-term borrowings                      | 250               |
| Payment of lease liabilities                            | (90)              |
| Interest paid   | (270)             |
| Dividends paid  | <u>(1,200)</u>    |
| <b>Net cash used in financing activities</b>            | <b>(1,060)</b>    |
| <b>Net increase in cash and cash equivalents</b>        | <b>110</b>        |
| <b>Cash and cash equivalents at beginning of period</b> | <b>120</b>        |
| <b>Cash and cash equivalents at end of period</b>       | <b><u>230</u></b> |

The operating, investing and financing categories in IFRS 18 have different meanings to those in IAS 7. While developing IFRS 18, the IASB prioritised the objectives of each primary financial statement and did not seek alignment between the operating, investing and financing categories in the statement of profit or loss and the statement of cash flows (see section 3 above).

[IFRS 18.BC86].

## 5.2 IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments, once effective, will change the scope and title of IAS 8, due to certain sections previously included within IAS 1 being moved to IAS 8.

The objective of the amended standard is to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with financial statements of other entities, by prescribing the basis of preparation of financial statements. [IAS 8(2027).1].

While developing IFRS 18, the Board concluded that some requirements setting out general features of financial statements and some disclosure requirements fit better with the content of the current version of IAS 8. Therefore, the Board decided to move those requirements from IAS 1 to IAS 8. The requirements moved are: [IAS 8(2027).BC3A]

- (a) The concepts of fair presentation and compliance with IFRS accounting standards
- (b) Whether an entity is a going concern
- (c) The accrual basis of accounting
- (d) Disclosure of an entity's selection and application of accounting policies
- (e) Disclosure of judgements and sources of estimation uncertainty

These relocated requirements are in addition to the guidance currently included in IAS 8 on accounting policies, changes in estimates and errors.<sup>33</sup>

The Board changed the title of the amended IAS 8 to *Basis of Preparation of Financial Statements* to better reflect the updated content of IAS 8.



### How we see it

Although the consequential amendments to IAS 8 might seem significant in terms of volume, since these requirements are carried over from IAS 1 mostly unchanged, we do not expect any significant impact on current practice.

Given the IASB's intention in relocating the guidance to IAS 8 was to improve the organisation of the IFRS accounting standards and to provide users with all the relevant topical content in one standard, we expect the experience of preparers navigating between the different standards and requirements to improve.

33 For the relevant guidance on the requirements currently included in IAS 8, see International GAAP® 2026, Chapter 3. Available on [ey.com/IFRS](https://ey.com/IFRS).

The amended standard permits entities to disclose additional amounts per share, if the numerator used in the calculation meets specified criteria

### 5.3 IAS 33 *Earnings per share*

IAS 33 requires entities to report basic and diluted earnings per share. The amended IAS 33, once effective, will permit entities to disclose additional amounts per share, if the numerator used in the calculation meets specified criteria. The IASB concluded that it was necessary to specify the numerator (or numerators) an entity can use when disclosing additional amounts per share to ensure that users of financial statements receive the same information about additional amounts per share as they receive for MPMs. [IAS 33(2027).BC16, IAS 33(2027).BC17].

Therefore, an entity can only use additional numerators that are amounts attributable to ordinary equity holders of the parent entity as follows: [IAS 33(2027).73B]

- A total or subtotal identified in IFRS 18 (in paragraphs 69, 86 and 118 of IFRS 18 - see section 4.2.4 above)
- Or
- A management-defined performance measure (or MPM) as defined by IFRS 18 (see section 4.2 above)

#### Frequently asked questions

##### Question 5-1: Can an entity disclose an additional earnings per share measure based on a numerator that does not comply with IAS 33.73B?

An entity cannot disclose an additional earnings per share measure based on a numerator that does not comply with IAS 33.73B.

IAS 33 has specific requirements for presenting additional earnings per share measures and indicates that only those numerators that meet the IAS 33.73B criteria can be used for additional earnings per share measures.



##### Illustration 5-2

##### Revenue based additional earnings per share measure

Entity A uses revenue per share (calculated as total revenue ÷ outstanding shares) as a key performance indicator in its public communications outside the financial statements.

'Total revenue', the numerator used by Entity A, is not:

- An MPM as defined by IFRS 18
- Or
- A total or subtotal listed in IFRS 18.69, 86 or 118

Therefore, disclosure of this additional earnings per share measure within the financial statements is not permitted under IFRS accounting standards requirements.

##### Question 5-2: Can an IFRS 18.B117 MPM be the basis for an additional earnings per share measure?

As discussed above, an MPM is one of the allowed numerators for an IAS 33 additional earnings per share measure. IFRS 18.B117 makes it clear that while a ratio cannot be an MPM (see section 4.2.1 above), the numerator within a ratio could be, if it would have met the MPM definition, had it not been included in a ratio.

Since an earnings per share measure is by definition a ratio, the question arises as to whether the use of an alternative earnings per share measure outside the financial statements could result in the numerator of such a measure meeting the definition of an MPM and if so, whether the numerator would be allowable under IAS 33.



### Illustration 5-3 Adjusted earnings per share ratio

Entity E uses an adjusted earnings per share measure as a key performance indicator in its public communications outside the financial statements to communicate management's view of an aspect of their overall performance. While the adjusted operating profit used in the adjusted earnings per share measure is a subtotal of income and expense (as envisaged by IFRS 18.117), Entity E does not specifically indicate the value of the numerator anywhere in its public communications. Entity E just discloses the formula used to derive the overall ratio being:

$$\frac{\text{adjusted operating profit}}{\text{weighted average number of ordinary shares outstanding}}$$

The 'adjusted operating profit' in this fact pattern is:

- A subtotal of both income and expense
- Not listed in IFRS 18.118, or specifically required to be presented or disclosed by IFRS accounting standards
- Used outside the financial statements to communicate management's view of an aspect of their overall performance

That is, the 'adjusted operating profit' numerator meets all the criteria of an MPM, other than being used by itself in public communications outside financial statements.



### How we see it

Many entities currently use adjusted earnings ratios as key performance indicators in their public communications outside their financial statements. Despite the restrictions on the permitted numerators for additional per share measures, entities will be able to disclose such adjusted earnings ratios in the financial statements, if the numerator used is a subtotal that itself meets the definition of an MPM (see section 4.2 above).

This includes subtotals only used as the numerator within a ratio (i.e., the subtotals are not separately used in communications as a stand-alone MPM), if the subtotals meets the MPM definition in their own right (see section 4.2.1 above).

It is important to note that any numerator that meets the definition of an MPM in its own right will also be subject to the MPM disclosure requirements (see section 4.3 above).

In line with the current requirements in IAS 33, the amended standard specifies that additional basic and diluted amounts per share must be disclosed with equal prominence and must be calculated using the weighted-average number of ordinary shares determined in accordance with IAS 33.

*[IAS 33(2027).73C(a), IAS33(2027).73C(b)].*

The amended standard explicitly states that the additional amount per share cannot be presented in the primary financial statement and can only be disclosed in the notes. *[IAS 33(2027).73C(c)].* The 'note only' disclosure requirement results from the fact that additional 'amounts per share' calculations require additional information and reconciliations between these additional amounts and the measures presented in the primary financial statements, in order to be understood by users. *[IAS 33(2027).BC18].*

If an entity uses an MPM as a numerator in an earnings per share calculation, it must follow the disclosure guidance required for MPMs, in IFRS 18.121-125 (see section 4.3 above), for that numerator. *[IAS 33(2027).73C(d)].*

Sometimes an entity is required by local law or regulation to disclose amounts per share in addition to basic and diluted earnings per share as required by IAS 33 (for example, adjusted earnings per share). Under the restrictions on allowable numerators in the amended standard, the entity would be permitted to disclose that amount per share in its financial statements, if it concludes that the numerator required by local law or regulation meets the definition of an MPM in IFRS 18. *[IAS 33(2027).BC17]*.



### How we see it

Although both the current and amended IAS 33 allow entities to disclose additional amounts per share, the amended IAS 33 introduces restrictions on the nature of allowable numerators to be used in the calculation of such an additional amount per share and requires additional disclosures.

## 5.4 IAS 34 *Interim Financial Reporting*

IFRS 18, once effective, will impact the disclosure requirements for interim financial reporting. Under IAS 34 as amended, an entity will be required to make disclosures about its MPMs, as defined in IFRS 18 (see section 4 above), in the notes to the condensed interim financial statements. *[IAS 34(2027).16A(m)]*. The scope of these disclosures in the condensed interim financial statements is the same as that required in an entity's complete set of financial statements. As a result, an entity will be required to provide the same range of information on MPMs in its interim financial reporting, no matter what the form and content of the interim financial statements might be.

The requirement in the amended IAS 34 to provide information on MPMs in the interim reporting is intended to provide users with transparent information about these measures and allow them to analyse all aspects of an entity's performance on a timely basis. *[IAS 34(2027).BC10A]*.

Consistent with the objective of condensed interim financial reports, an entity does not need to repeat previously reported information about MPMs, for example, information about why an entity's management considers that an MPM communicates aspects of the entity's performance.

*[IAS 34(2027).BC10B]*.

It is worth noting that, because MPMs relate to performance for the same reporting period as the financial statements, a subtotal that relates to the annual financial statements, but not to interim financial statements, is only an MPM in the annual financial statements (see section 4.2.2 above).



### How we see it

Generally, the disclosure requirements in IAS 34 are less prescriptive for condensed interim financial statements compared to complete financial statements. The fact that the Board decided that the same level of prescriptiveness is required for disclosure about MPMs in condensed interim financial statements highlights the Board's assessment that more detailed information about MPMs is also decision-useful in combination with otherwise condensed financial information.

IFRS 18 supersedes IAS 1 and is effective, together with the consequential amendments to other standards, for reporting periods beginning on or after 1 January 2027. Earlier application is permitted and must be disclosed in the notes.

## 6 Transition

IFRS 18 supersedes IAS 1 and is effective for reporting periods beginning on or after 1 January 2027. Earlier application is permitted and must be disclosed in the notes. [IFRS 18.C1, IFRS 18.BC414]. An entity is required to apply the consequential amendments to other IFRS accounting standards when it applies IFRS 18.

The standard applies retrospectively. However, an entity is not required to present the quantitative information specified in IAS 8.28(f) (i.e., the adjustment for each financial statement line item affected and the related effect on basic and diluted earnings per share, for the current period and each prior period presented). [IFRS 18.C2, IFRS 18.BC417].

In its annual financial statements, an entity must disclose, for the comparative period immediately preceding the period in which IFRS 18 is first applied, a reconciliation for each line item in the statement of profit or loss between: [IFRS 18.C3, IFRS 18.BC418]

- The restated amounts presented in accordance with IFRS 18
- And
- The amounts previously presented applying IAS 1

An entity is permitted, but not required, to provide the reconciliation for: [IFRS 18.C6, IFRS 18.BC419]

- The reporting period in which IFRS 18 is first applied
- And/or
- Earlier comparative periods

As noted above, IFRS 18 requires a reconciliation (between the amounts presented under IFRS 18 and those presented previously under IAS 1 for each item in the statement of profit or loss) only for the period immediately preceding the period of first application. However, entities that present more than one comparative period must take into account any local regulatory requirements as these may require a reconciliation for all periods presented. For example, if local regulations require that an entity presents two years of comparative information in its financial statements, the entity may also be required to provide a reconciliation for all periods presented.

At the date of initial application of IFRS 18, an entity that is eligible<sup>34</sup> to apply IAS 28.18 (see section 3.3.5.A above) is permitted to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with IFRS 9. If an entity makes such a change, it applies the change retrospectively, applying IAS 8. An entity that applies the election is required to account for the applicable investments in the same way in its separate financial statements, as required by IAS 27.11. [IFRS 18.C7, IFRS 18.BC423].

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34 For further guidance on eligible entities, see International GAAP® 2026, Chapter 12 at section 3.3. Available on [ey.com/IFRS](https://ey.com/IFRS).



## How we see it

While there might appear to be ample time before the effective date of IFRS 18, entities are strongly encouraged to determine the impact of the new requirements on their particular business. Many entities will need to identify and collect information, which in some cases, could necessitate changes to their internal information systems and their financial statement close process.

Management needs to plan ahead as the transition process could require considerable time and involve the combination of resources from financial reporting, legal and investor relations, among others.

In addition, there could be impacts on remuneration agreements and covenants. Entities are advised to monitor practice as it develops, with a focus on the specific developments in their particular industry.

Some entities might consider a 'phased transition' before the mandatory effective date. That is, IFRS 18, although a new standard, carries over most of the requirements of IAS 1, and many of the new requirements, such as the additional guidance on aggregation and disaggregation, are to a great extent permissible under IAS 1. Similarly, the new requirements regarding MPM disclosures generally do not conflict with the disclosure requirements of IAS 1. Furthermore, some of the required changes in presentation when adopting IFRS 18, could, in some cases, be justifiable under the guidance in IAS 1 and IAS 8 regarding changes in presentation policies. Whether a phased or an 'all at once' transition to IFRS 18 is appropriate will have to be determined by an entity's specific facts and circumstances.

## 6.1 Interim reporting

If an entity prepares condensed interim financial statements in accordance with IAS 34, in the first year of applying IFRS 18, it presents each heading it expects to use and the subtotals required in IFRS 18 in its condensed interim financial statements. This is despite the requirement in IAS 34.10 to retain in the interim financial statements the headings and subtotals included in the most recent annual financial statements. That requirement is effectively ignored in each set of condensed interim financial statements until an entity has issued its first set of annual financial statements prepared in accordance with IFRS 18. *[IFRS 18.C4, IFRS 18.BC421]*.

As part of the information required by IAS 34.16A(a) (i.e., where accounting policies have changed since the last annual period, a description of the nature and effect of these changes), an entity that applies IAS 34 to prepare interim financial statements in the first year of applying IFRS 18, discloses a reconciliation for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current periods between: *[IFRS 18.C5, IFRS 18.BC422]*

- (a) The restated amounts applying IFRS 18 to the comparative period and the cumulative comparative period  
And
- (b) The amounts previously presented applying IAS 1 to the comparative period and cumulative comparative period

An entity can voluntarily provide additional reconciliations between the IAS 1 and IFRS 18 presentation for: *[IFRS 18.C6]*

- The current interim period (and the cumulative current interim period)  
And/or
- An earlier interim period in addition to those immediately preceding the current period as required above

These requirements are shown in the Illustration below:



### **Illustration 6-1: Entity publishing quarterly interim financial reports**

Entity Q's financial year ends on 31 December 2027 (i.e., calendar year) and it prepares quarterly interim financial statements. Entity Q adopts IFRS 18 from 1 January 2027.

Entity Q will present the following periods in its statement of profit or loss in its second quarterly interim statements report as of 30 June 2027:

|                     |                  | <b>Statement of profit of loss<br/>applying IFRS 18</b> |                       |
|---------------------|------------------|---|-----------------------|
|                     |                  | <b>Comparatives*</b>                                    | <b>Current period</b> |
| <b>Year to date</b> | 6 months ending: | 30 June 2026  | 30 June 2027          |
| <b>Q2</b>           | 3 months ending: | 30 June 2026  | 30 June 2027          |

\* Retrospectively restated

In addition, it will disclose a reconciliation between each line items as presented in the comparative (and cumulative comparative) statement of profit or loss applying IFRS 18 and the amounts previously presented for those comparatives applying IAS 1, for the following periods:

|                     |                 | <b>Comparatives</b> |
|---------------------|-----------------|---------------------|
| <b>Year to date</b> | 6 months ending | 30 June 2026        |
| <b>Q2</b>           | 3 months ending | 30 June 2026        |

## **7 Future developments**

At the time of writing, additional submissions concerning the application of IFRS 18 have been made to the IFRS IC, but have not yet been discussed. Two submissions consider the definition of management-defined performance measures, one raises questions regarding the labelling of subtotals, and another addresses the 'specified main business activity' concept of IFRS 18. The IFRS IC's project pipeline indicates that they will discuss these matters at a future meeting.<sup>35</sup>

It is, therefore, important that preparers continue to monitor developments and ongoing discussions, such as the above-mentioned recent submissions.

35 [Interpretations Committee Pipeline](#), IFRS Foundation website (accessed 16 April 2026).

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# Appendix C – Additional considerations for banks

## Overview

This Appendix contains an illustrative consolidated statement of profit or loss for a retail and investment banking group under IFRS 18 and addresses frequently asked questions about the application of IFRS 18 which have arisen in the banking sector.

As explained in section 3.3 above, the specific requirements for entities such as banks, with a main business activity of investing in assets or providing financing to customers, only apply to certain income and expenses related to those main business activities. However, the rest of such an entity's income and expenses are still subject to the general requirements in IFRS 18, which are discussed in section 3.2 above. Therefore, this Appendix should be read in conjunction with the main body of this publication.

For ease of reference, a number of the more generally applicable frequently asked question included in the main body of this publication have also been included, or expanded on in the context of banks, in this Appendix.

## C.1 Introduction

As discussed in section 3.1.1 above, IFRS 18 requires all entities to classify their income and expenses included in profit or loss for the period into one of five specified categories, namely: operating, investing, financing, income taxes and discontinued operations. If banks were to apply the general requirements of the standard, some of their income and expenses from their main business activities would be classified in categories other than the operating category.

To address this, IFRS 18 introduces a new concept of a 'specified main business activity', which requires entities that have identified either or both of the specified activities to classify some of their income and expenses in the operating category that would otherwise have been included in the investing or financing categories. [IFRS 18.50].

The two types of main business activities specified by IFRS 18 are:

- Investing in particular types of assets, referred thereafter as investing in assets (refer to section C.3 below)
- And
- Providing financing to customers

Entities need to determine whether they have either or both of these activities as a main business activity. Banks would typically have a main business activity of providing financing to customers and may also have a main business activity of investing in assets. Determining whether a bank has one or both of the specified main business activities is a matter of fact, based on evidence, rather than merely an assertion and may require significant judgement.

In applying IFRS 18, banks, therefore, have to follow the general requirements applicable to entities in all industries, explained in section 3.2 above, and also the specific requirements applicable to entities with either or both of the business activities specified by the standard, explained in section 3.3 above.

## C.2 Illustrative statement of profit or loss

The consolidated statement of profit or loss below is based on Illustrative Example II-4 within IFRS 18 and is for a retail and investment banking group that has identified both main business activities of investing in financial assets and providing financing to customers at the reporting entity level.

The bank classifies its income and expenses using the general requirements of IFRS 18 and applies the classification exceptions for each specified main business activity as appropriate. See section 3.3.1 above for guidance in determining main business activities.

The aggregation and disaggregation of income and expenses in this example is for illustrative purposes only. In practice, any conclusion in this area requires judgement, a consideration of materiality and must be based on the specific facts or circumstances of the reporting entity. See section 2.2 above for more guidance on aggregation and disaggregation requirements under IFRS 18.

The allocation of profit or loss for the year attributable to non-controlling interests and owners of the parent, as required by IFRS 18.76, and the presentation of earnings per share, as required by IAS 33.66, are not illustrated in the example below.

**Figure C.2-1: Example presentation of the consolidated statement of profit or loss for a retail and investment bank**

| Consolidated statement of profit or loss for the year ended 31 December 202X       |           |      |   |
|--|-----------|------|---|
|  | Category  | Note | Reference   |
| Interest revenue calculated using the effective interest method                    | Operating | (1)  | <i>IFRS 18.75(bXi), IFRS 18.56(a), IFRS 18.B49(b), IFRS 7.20(b)</i> |
| Interest income on financial assets at fair value through profit or loss           |           | (1)  | <i>IFRS 18.24</i>   |
| Interest expense calculated using the effective interest method                    |           | (2)  | <i>IFRS 18.65(a), IFRS 18.66, IFRS 7.20(b)</i>                      |
| Interest expense on financial liabilities at fair value through profit or loss     |           | (2)  | <i>IFRS 18.24</i>   |
| <b>Net interest income</b>   |           | (3)  | <i>IFRS 18.24, IFRS 18.B123</i>                                     |
| Fee and commission income  |           | (3)  | <i>IFRS 18.24, IFRS 7.20(cXi)</i>                                   |
| Fee and commission expense   |           | (3)  | <i>IFRS 18.24, IFRS 7.20(cXi)</i>                                   |
| <b>Net fee and commission income</b>   |           | (3)  | <i>IFRS 18.24, IFRS 18.B123</i>                                     |
| Credit impairment losses   |           | (4)  | <i>IFRS 18.75(bXii), IFRS 18.B49(d)</i>                             |
| Net trading income   |           | (5)  | <i>IFRS 18.24, IFRS 18.58</i>                                       |
| Net gains/(losses) on financial assets at fair value through profit or loss        |           | (5)  | <i>IFRS 18.58, IFRS 7.20(aXi)</i>                                   |
| Net gains/(losses) on financial liabilities at fair value through profit or loss   |           | (5)  | <i>IFRS 18.65(aXii), IFRS 7.20(aXi)</i>                             |
| Net gains/(losses) on derecognition of financial assets measured at amortised cost |           | (5)  | <i>IFRS 18.58, IFRS 18.75(bXiii), IFRS 7.20(aXvi)</i>               |

|   |                         |      |   |
|---|-------------------------|------|---|
| Other individually immaterial operating income                            |                         | (6)  |   |
| Impairment of goodwill  |                         | (7)  | IFRS 18.B49(d)                                    |
| Employee benefits   |                         | (7)  |   |
| Depreciation and amortisation   |                         | (7)  | IFRS 18. B49(c)                                   |
| Other individually immaterial operating expenses                          |                         | (6)  |   |
| <b>Operating profit</b>   |                         |      | IFRS 18.69  |
| Share of profit or loss of equity-accounted associates and joint ventures | Investing               | (8)  | IFRS 18.75(a)(iii), IFRS18.53(a), IFRS 18.55(a)   |
| Gains on disposals of equity-accounted associates and joint ventures      |                         | (8)  |   |
| Interest expense on provisions for litigation                             | Financing               | (9)  | IFRS 18.61(b), IFRS 18.B54(e)                     |
| Interest expense on pension liabilities and lease liabilities             |                         | (10) | IFRS 18.65(b)(xi), IFRS 18.B54(c), IFRS 18.B54(d) |
| <b>Profit before income tax</b>   |                         |      |   |
| Income tax expense  | Income taxes            | (11) | IFRS 18.75(a)(iv)                                 |
| <b>Profit from continuing operations</b>                                  |                         |      |   |
| Loss from discontinued operations   | Discontinued operations | (11) | IFRS 18.75(a)(v)                                  |
| <b>Profit for the year</b>  |                         |      | IFRS 18.69  |

Key:

|   |                |
|---|----------------|
| <span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px;"></span>   | New items      |
| <span style="background-color: #cccccc; display: inline-block; width: 100px; height: 15px;"></span> | Required items |

### Commentary

- (1) Interest income from loans to customers is classified in the operating category as the bank provides financing to customers as a main business activity. [IFRS 18.B48(c), IFRS 18.B49(b)].
- As the bank invests in *financial* assets as a main business activity, income and expense from all its cash and cash equivalents are classified in the operating category. Therefore, the bank is not required to distinguish between cash and cash equivalents that relate to providing financing to customers and those that do not. Refer to section C.4 below for more guidance on the classification of income and expenses from cash and cash equivalents.
- 'Interest income on financial assets at fair value through profit or loss' includes interest income from economic hedges and other financial assets measured at fair value through profit or loss. The bank has determined, taking into account the disaggregation requirements in IFRS 18, and considering the guidance in IAS 8 regarding accounting policies in the absence of specific requirements, that presenting a line item for 'Interest income on financial assets at fair value through profit or loss', separately from "Net gains/(losses) on financial assets at fair value through profit or loss", is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

The bank has also determined that presenting 'Interest income on financial assets at fair value through profit or loss', in addition to the line item specified in IFRS 18.75(b)(i) for 'Interest revenue calculated using the effective interest method', is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

See Question C.2-1 below for more information on the separate presentation of interest from other changes in fair value of financial instruments measured at fair value through profit or loss (FVTPL).

- (2) As the bank provides financing to customers as a main business activity, income and expenses from liabilities that arise only from the raising of finance ('Type 1 liabilities'), that relate to providing financing to customers, are classified in the operating category. [IFRS 18.65(a)(i)].

The bank also chooses to classify the income and expense from all other Type 1 liabilities that do not relate to providing financing to customers in the operating category. [IFRS 18.65(a)(ii)]. This accounting policy choice cannot be made on a liability-by-liability basis, as explained in Question C.5-2 in section C.5 below.

The bank's central treasury function issued a general-purpose liability for which it is unable to identify whether or not the liability solely relates to the provision of financing to customers. The bank is required to classify the income and expenses from this liability in the operating category. [IFRS 18.66]. See Question C.5-3 in section C.5 below on whether an entity can allocate income and expenses from a single Type 1 liability between the operating and the financing categories.

'Interest expense on financial liabilities at fair value through profit or loss' includes interest expenses from economic hedges and other financial liabilities measured at fair value through profit or loss. The bank determined, taking into account the disaggregation requirements in IFRS 18 and considering the guidance in IAS 8 mentioned above, that presenting a line item for 'Interest expense on financial liabilities at fair value through profit or loss' separately from "Net gains/(losses) on financial liabilities at fair value through profit or loss" is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

The bank has also determined that presenting separate line items for 'Interest expense calculated using the effective interest method' and 'Interest expense on financial liabilities at fair value through profit or loss' is necessary for the consolidated statement of profit or loss to provide a useful structured summary of the bank's income and expenses.

See Question C.2-1 below for more information on the separate presentation of interest from other changes in fair value of financial instruments measured at FVTPL.

Refer to section C.5 below for more guidance on the classification of income and expenses from liabilities.

- (3) The bank presents additional line items and subtotals such as 'net interest income' and 'net fee and commission income' to provide a useful structured summary of the bank's income and expenses.
- (4) The credit loss expense on financial assets relates to the bank's loans to customers and is, therefore, classified in the operating category. Refer to Question C.9-2 in section C.9 below for more information.

- (5) As the bank has a main business activity of investing in financial assets, all income and expenses from those assets that it invests in as a main business activity must be classified in the operating category rather than the investing category (see section 3.2.1. and section 3.3.2 above for more information). For all Type 1 liabilities not related to providing financing to customers, the bank has applied the accounting policy choice to classify the related income and expenses in the operating category. This choice would not have been available to the bank if it did not provide financing to customers as a main business activity.
- As the bank has chosen to classify interest expense from all Type 1 liabilities unrelated to providing financing to customers in the operating category it is not permitted to present the subtotal '*Profit or loss before financing and income taxes*'. [IFRS 18.73]. The bank could add an additional subtotal if required to provide a useful structured summary of its income and expenses, but cannot use '*profit before financing*' as a line label, as that would not be an accurate description, given that operating profit includes income and expenses from all liabilities that arise only from the raising of finance.
- (6) The bank aggregates individually immaterial operating income and aggregates individually immaterial operating expenses in two separate line items and describes these line items as 'other individually immaterial operating income' and 'other individually immaterial operating expenses', respectively, as these labels are considered, by the bank, as sufficiently explanatory, as the key aspect of these items is explicitly conveyed, i.e., they are all individually immaterial. Entities can only use labels such as 'other income' or 'other expenses' if they cannot find a more informative label. Section 2.3.1 above contains more guidance on the use of the label 'other'.
- (7) Operating expenses must be presented applying the characteristics of either the nature or the function of expenses within the bank. Although a mixed presentation is permitted, an individual line item can only be aggregated on the basis of one of those characteristics (see section 3.4.2 above). Most banks present expenses by nature rather than by function. However, if a bank assesses that presentation by function would provide a more a useful structured summary, the bank must still disclose a qualitative description of the nature of the expenses included in each functional line item by nature in the notes to the financial statements. In addition, there are additional disclosure requirements for line items presented by function in the operating category of the statement of profit or loss. For further detail, please see section 3.4.2.B above. Operating expenses must be classified and presented consistently from one reporting period to another, unless the conditions in IFRS 18.30 apply.
- (8) All entities must classify their share of profit or loss and other income and expenses (such as impairment losses) from equity-accounted investments in associates, joint ventures, or unconsolidated subsidiaries in the investing category, regardless of whether investing in such assets is a main business activity. [IFRS 18.53(a), IFRS 18.55(a)]. Refer to Question C.6-1 in section C.6 below for more information on the options available to an entity that considers its equity accounted investments to be part of its operations.

- (9) The bank has provisions for litigation which are Type 2 liabilities. The interest income or expense from a change in the discounted amount of long-term provisions or the income or expense from the change in discount rates used to measure these provisions are classified in the financing category, while the income or expense from all other changes in the carrying amount of the liability, such as changes in estimates, are classified in the operating category. [IFRS 18.BC166].
- (10) Interest income and expenses and income and expenses arising from changes in interest rates, related to Type 2 liabilities and identified for the purpose of applying other requirements in IFRS accounting standards, are classified in the financing category for all entities, irrespective of their main business activities. Refer to Question C.5-7 in section C.5 below for more information.
- (11) Income and expenses classified in either the income taxes or discontinued operations categories are not subject to the requirements for classifying income and expenses in the operating, investing and financing categories. [IFRS 18.B29]. See sections 3.2.4 and 3.2.5 above for more information.

### Frequently asked questions

#### Question C.2-1: Can the interest accrual or settlement on financial instruments measured at FVTPL be disaggregated and presented separately from other fair value movements in the statement of profit or loss under IFRS 18?

The change in fair value of debt instruments measured at fair value through profit or loss (FVTPL) applying IFRS 9 can be due to interest accruals, foreign exchange differences and changes in market interest rates, amongst other components. Neither IFRS 9 nor IFRS 7 provide explicit guidance on whether entities are required to, or are prohibited from, disaggregating the fair value movements into their components on the face of the income statement, although IFRS 7 requires disclosure of the net gain or loss on financial instruments at FVTPL and disclosure, in the accounting policies, of whether this net gain or loss includes interest or dividends. [IFRS 7.20(a)(i), IFRS 7.B5(e)].

As mentioned in Question 2-1 in section 2.1.1.B above, an accounting policy appropriately developed under IAS 8 is not in conflict with the requirement in IFRS 18.24(a) for additional line items to be amounts recognised and measured in accordance with IFRS accounting standards.



#### How we see it

An entity could disaggregate the interest accrual or settlement on financial instruments measured at FVTPL and present it in a separate line item from (but in the same profit or loss category as) the other components of the fair value movement, provided this additional line item is necessary for the statement of profit or loss to provide a useful structured summary.

Therefore, entities can, as an accounting policy, determine net gains or losses on financial instruments at FVTPL exclusive of interest income or expense for presentation purposes if such presentation is necessary to provide a useful structured summary. This could be the case when the interest accruals or settlements are useful for providing an understandable overview of the entity's income and expenses or for making comparisons between entities, for example, when net interest income is recognised as a key measure of an entity's performance in

a specific industry. It would then disaggregate and present the interest income or expense component separately from the other components of the total net gain or loss recognised applying IFRS 9 (but still within the same profit or loss category).

The accounting policy must be by class of financial instrument, determined by the entity and distinct from the IFRS 9 measurement categories, taking into account the characteristics of the financial instruments. [IFRS 7.6, IFRS 7.B1-B3]. The accounting policy cannot, therefore, be for all financial instruments at FVTPL, but must be more granular, e.g., interest bearing derivative financial instruments (i.e., swaps) and interest bearing non-derivative financial instruments (i.e., debt). The same accounting policy must be applied to all financial assets and financial liabilities of the same class.

See section 3.4 above for information on specified line items to be presented in the statement of profit or loss, section 2.1.1.B above for information on additional line items and section 2.2 above for information on aggregation and disaggregation.

**Question C.2-2: Can the interest disaggregated from other fair value movements on financial instruments measured at FVTPL be aggregated with 'interest revenue calculated using the effective interest method'?**

The interest component disaggregated from the other components of the fair value movement on financial instruments measured at FVTPL (as discussed in Question C.2-1 above), could also be aggregated with another line item within the same profit or loss category for presentation purposes, provided the principles of aggregation are followed (see section 2.2 above). [IFRS 18.41].

However, IFRS 18 prescribes requirements for line items to be included on the face of the statement of profit or loss and these include the line item 'interest revenue calculated using the effective interest method'. [IFRS 18.75(b)(i)]. The IFRS IC clarified in March 2018 that only interest on financial assets measured at amortised cost or on debt instruments measured at fair value through other comprehensive income are permitted to be included in the amount of interest revenue presented separately for items calculated using the effective interest method. At this meeting it was also concluded that the separate interest revenue line would encompass the effect of a qualifying hedge of interest rate risk, applying the hedge accounting requirements.<sup>36</sup>

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36 [IFRIC Update](#), March 2018, available on the IFRS Foundation's website. While this IFRS IC agenda decision was under IAS 1, it has been carried forward by the IASB substantially unchanged, with only the reference to IAS 1 being updated to the equivalent requirement in IFRS 18.

Determining whether an entity invests in financial assets as a main business activity is only relevant for investments other than equity accounted investments

### C.3 Main business activity of investing in assets

Normally, a bank would be expected to identify 'providing financing to customers' as a main business activity, although it may not always be the case (e.g., certain types of investment banks). It may be less straightforward to determine whether it also identifies 'investing in assets' as a main business activity. [IFRS 18.B32]. Banks must determine whether they invest in financial assets and/or non-financial assets that generate returns individually and largely independently of the entity's other resources as a main business activity.

#### Frequently asked questions

##### Question C.3-1: How should an entity determine whether an asset generates an individual and largely independent return?

In the absence of detailed guidance in the standard on the meaning of 'individual and largely independent return', determining whether an asset generates such a return will involve judgement and will depend on factors such as the nature of the asset, how the asset is used in the entity's business and the entity's business model. For more information on the scope of assets that should be assessed and how such an assessment should be made, see section 3.2.1.E above.

It should be noted that determining whether the entity invests in financial assets as a main business activity is only relevant for investments other than equity accounted investments, as the classification of the income and expenses from equity accounted investments does not change, whether they are invested in as a main business activity or not. [IFRS 18.55(a), IFRS 18.B38]. Income and expenses from equity accounted investments are classified in the investing category.

The standard provides two indicators to determine whether an entity has either or both of the above specified main business activities, though the indicators are not exhaustive (see section 3.3.1.B above):

- The entity uses a particular type of subtotal, similar to gross profit, as an important indicator of operating performance, and that subtotal includes income and expenses that would have been classified in the investing or financing categories, if the entity did not have one, or both, of the above specified main business activities. [IFRS 18.B34]. For example, investment returns are an important indicator of operating performance, if investing in assets is an entity's main business activity. [IFRS 18.BC145].
- The entity applies IFRS 8, and:
  - A reportable segment comprises a single business activity, this indicates that the performance of the reportable segment is an important indicator of the entity's operating performance and that the business activity of the reportable segment is a main business activity of the entity. [IFRS 18.B36(a)]. For example, where a reportable segment comprises only investing activities of a bank.
  - An operating segment comprises a single business activity, and the performance of the operating segment is an important indicator of the entity's operating performance (as described in IFRS 18.B34), this indicates that business activity of the operating segment might be a main business activity of the entity. [IFRS 18.B36(b)]. For example, where an operating segment that is included in a reportable segment, comprises only investing activities of the bank, and the investment returns from this operating segment are used by the bank as an important indicator of its operating performance.

The identification of a main business activity requires the use of judgement

Refer to section 3.3.1 above for more information on the indicators and evidence entities can use in their assessment of specified main business activities.

The identification of a main business activity requires the use of judgement. Not all activities that an entity conducts on a regular basis are necessarily 'main' business activities, as some may constitute ancillary activities. Although the standard provides the two above-mentioned indicators for when an activity is a 'main business activity', other factors could also be relevant, depending on an entity's specific circumstances.

The main business activity assessment for investing in assets is performed by individual asset or groups of assets with shared characteristics. [IFRS 18.B38, IFRS 18.B40]. When the assessment is performed for a group of investments in associates, joint ventures and unconsolidated subsidiaries not accounted for using the equity method, and the entity prepares separate financial statements, it must group those assets according to the categories used in choosing the measurement basis for the investments applying IAS 27.10; see International GAAP® 2026, Chapter 9 at section 2 for a discussion on identifying these categories. [IFRS 18.B38, IFRS 18.BC147]. When the assessment is performed for a group of other financial assets, the groups must be consistent with the classes of financial instruments used for disclosure by class under IFRS 7. [IFRS 18.B40, IFRS 18.BC147]. Entities are not precluded from identifying both a main business activity of investing in financial assets as well as a main business activity of investing in non-financial assets. For example, a bank may have a significant portfolio of rental properties as part of its investing strategy. The bank may determine that it has a main business activity of investing in investment property (non-financial assets), in addition to a main business activity of investing in financial assets.



### How we see it

Identifying the assets that an entity invests in as a main business activity requires judgement, especially for a reporting entity that is a consolidated group. Disclosure of the individual asset, or groups of assets, that the entity invests in as a main business activity, along with the disclosure required by IFRS 18.51(a) of the fact that the entity invests in assets as a main business activity, helps users to better understand the structure of the entity's statement of profit or loss.

[IFRS 18.BC100].

IFRS 18 requires an entity to make the assessment of main business activities for the reporting entity as a whole. Thus, it is possible for a reporting entity that is a consolidated group and a reporting entity that is a subsidiary within that group, to have different main business activities. [IFRS 18.B37].

### Frequently asked questions

**Question C.3-2: How does a main business activity identified only at a subsidiary level of a banking group impact the classification of income and expenses in the consolidated group accounts?**

(This Question is related to Question 3-22 in section 3.3.1.A above.)

As noted above, it is possible for a consolidated group, and one of the subsidiaries within that group, to have different main business activities. As such, the classification of income and expenses for the group may differ from that of the subsidiary. [IFRS 18.B37, IFRS 18.BC98].

For example, a banking conglomerate has a large trading business operated through one of the subsidiaries in the group. At a consolidated level, the banking group has identified the trading activities of this subsidiary as a main business activity (i.e., investing in financial assets).

The banking conglomerate also has a subsidiary that invests in investment property. This subsidiary has identified a main business activity of investing in non-financial assets (investment properties) in its separate financial statements. Consequently, at the subsidiary level, the special requirements for the classification of income and expenses will apply to the investment property, such that income and expenses from the investment property will be classified in the operating category.

*[IFRS 18.58].*

However, at a consolidated level, the banking group has not identified a main business activity of investing in non-financial assets (investment property), due to the absence of indicators for such a main business activity and small size of the investment property operations relative to the banking group (refer to section 3.3.1.B above for further details on indicators of main business activities). Therefore, the special requirements for the classification of income and expenses relating to investments in non-financial assets will not apply in the banking group's consolidated financial statements.

The identification of a main business activity of investing in assets impacts the classification of income and expenses specified in IFRS 18.54 arising from the investment in the asset.

### Frequently asked questions

**Question C.3-3: Does the identification of a main business activity of investing in assets impact the classification of the income and expenses from a liability incurred to fund these investments?**

If an entity incurs a liability to fund the investment in the asset, the classification of income and expenses from that liability, unless capitalised, follows the general rules for such income and expenses - see section C.5 below. Thus, the requirements for entities with a main business activity of investing in assets do not permit income and expenses from the financing of that main business activity to be classified in the operating category.

However, if the entity also identifies a main business activity of providing financing to customers, the entity has an accounting policy choice to classify these income and expenses in either the operating or the financing category as explained in section C.5 below.

## C.4 Income and expenses from cash and cash equivalents

Income and expenses from cash and cash equivalents are classified in the investing category by default, unless the entity has a main business activity of investing in *financial* assets within the scope of IFRS 18.53(c) (i.e., financial assets other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries, that generate a return individually and largely independently of the entity's other resources), or of providing financing to customers. [IFRS 18.B39]. This is explained in more detail in the following question:

### Frequently asked questions

#### Question C.4-1: How would banks classify income and expenses from cash and cash equivalents?

If a bank invests as a main business activity in financial assets (other than cash and cash equivalents, associates, joint ventures and unconsolidated subsidiaries) which generate a return individually and largely independently of the entity's other resources, it is required to classify the income and expenses from all its cash and cash equivalents in the operating category. [IFRS 18.56(a), IFRS 18.BC137, IFRS 18.BC138].

If a bank does not invest in financial assets as a main business activity but provides financing to customers as a main business activity then:

- Income and expenses from cash and cash equivalents that relate to providing financing to customers (for example, cash held for regulatory purposes), are classified in the operating category. [IFRS 18.56(b)(i)].
- Income and expenses from cash and cash equivalents that do not relate to providing financing to customers are classified either in the operating or investing categories as an accounting policy choice. This choice must be consistent with the similar accounting policy choice (discussed in section C.5 below) for income and expenses arising from Type 1 liabilities that do not relate to providing financing to customers. [IFRS 18.56(b)(ii), IFRS 18.65(a)(ii)].
- If the bank cannot distinguish between income and expenses from cash and cash equivalents related to providing finance to customers and those which are unrelated, it is required to classify income and expenses from *all* its cash and cash equivalents in the operating category. [IFRS 18.57, IFRS 18.BC141].

For further guidance, refer to section 3.3.4 above.

#### Question C.4-2: Where relevant to a banking conglomerate, does the accounting policy in IFRS 18.56(b)(ii) apply to the cash and cash equivalents held in the parts of the group whose activities are unrelated to the overall main business activity of providing financing to customers?

(This Question is related to Question 3-32 in section 3.3.3.E above.)

For example, a retail banking conglomerate has identified a main business activity of providing financing to customers at a consolidated level. The group has not identified investing in financial assets as a main business activity and consequently, IFRS 18.56(a) does not apply. The group also has a subsidiary whose activities are unrelated to providing financing to customers.

As discussed in Question C.4-1 above, banks with a main business activity of providing financing to customers have an accounting policy choice to classify income and expenses from cash and cash equivalents unrelated to providing financing to customers in the operating category (the accounting policy choice must be consistent with that made for income and expenses from liabilities in IFRS 18.65(a)(ii)). [IFRS 18.56(b)(ii)]. This raises the question of whether this accounting policy choice also applies to the activities within a banking conglomerate that do not relate to providing financing to customers; that is, at the consolidated level, can the policy choice be applied to the income and expenses from cash and cash equivalents arising from a subsidiary whose activities are unrelated to providing financing to customers?



### How we see it

In our view, the accounting policy choice in IFRS 18.56 is applied at the reporting entity level, i.e., at the consolidated level for the conglomerate, and the individual level for the subsidiary.

This means that if, at a consolidated level, it is determined that there is a main business activity of providing financing to customers, then the accounting policy choice in IFRS 18.56(b)(ii) must be applied to all cash and cash equivalents that do not relate to providing financing to customers, irrespective of their origin within the group. This would include the cash and cash equivalents of the subsidiary in the example above. This is in contrast to the treatment in the individual accounts of the subsidiary, where the accounting policy choice is not available for the income and expenses from the same cash and cash equivalents.

Income and expenses from Type 1 liabilities that do not relate to the main business activity of providing financing to customers can be classified, as an accounting policy choice, either in the operating or the financing category

## C.5 Income and expenses from liabilities

The classification of income and expenses from liabilities depend on whether the liabilities arise from transactions that involve only the raising of finance (referred to as 'Type 1 liabilities') or from other transactions (referred to as 'Type 2 liabilities').

For Type 1 liabilities, the classification of income and expenses depends on whether the entity has a specified main business activity of providing financing to customers (refer to section 3.3.3 above for more information). If that is the case, the related income and expenses are classified, as follows:

- Income and expenses arising from Type 1 liabilities that relate to the main business activity of providing financing to customers are classified in the operating category. [IFRS 18.65(a)(i)].
- Income and expenses arising from Type 1 liabilities that do not relate to the main business activity of providing financing to customers can be classified, as an accounting policy choice, either in the operating or the financing category. [IFRS 18.65(a)(ii)]. This accounting policy choice must be consistent with the one made for income and expenses from cash and cash equivalents (discussed in section C.4 above).

For an entity that does not have a specified main business activity of providing financing to customers, all income and expenses from Type 1 liabilities are classified in the financing category. [IFRS 18.60].



### How we see it

The policy choices available to entities whose main business activity is providing financing to customers provide a practical option for preparers who are unable to distinguish easily between income and expenses that relate to the provision of finance to customers.

However, the availability of an accounting policy choice may create diversity in practice among banks, which will result in some loss of comparability between similar entities.

If the entity is unable to determine whether certain Type 1 liabilities relate to its main business activity of providing financing to customers, it is required to classify the income and expenses from these liabilities in the operating category. [IFRS 18.66]. For example, entities with a central treasury function might not be able to identify, in a non-arbitrary way, income and expenses from liabilities that relate to providing financing to customers.

[IFRS 18.BC182].



### How we see it

We believe the requirement in IFRS 18.66 is an exception and applies only to those Type 1 liabilities for which an entity is unable to distinguish whether they relate to its main business activity of providing financing to customers. It does not override the election made by an entity for Type 1 liabilities where it is clear they are unrelated to providing financing to customers.



### Illustration C.5-1: Determining which Type 1 liabilities are in the scope of the accounting policy choice in IFRS 18.65

Bank A, with a main business activity of providing financing to customers, entered into three Type 1 liabilities in the current period:

- Liability 1 - Entered into specifically to on-lend that financing to customers
- Liability 2 - Taken out to fund the bank's own operations (e.g., to finance a business acquisition) as opposed to providing financing to customers
- Liability 3 - A general purpose fixed rate liability entered into by the central treasury function of the bank. These funds have been intermingled with the bank's own excess cash and can be used by any part of the bank's business, including the lending operations. As a result, the bank cannot identify whether the liability solely relates to the provision of financing to customers

The bank applies the accounting policy choice in IFRS 18.65 to Liability 2 only. This is because the accounting policy only applies to liabilities unrelated to providing financing to customers. [IFRS 18.BC184].

The income and expenses from Liability 1 and Liability 3 must be classified in the operating category by Bank B since:

- Income and expenses from liabilities that relate to a main business activity of providing financing to customers (i.e., Liability 1) are always classified in the operating category
- When an entity cannot identify whether the liability relates solely to providing financing to customers (i.e., Liability 3), income and expenses from the liability are classified in the operating category

Therefore, there is no optionality for these two liabilities.

The requirements for entities with a main business activity of providing financing to customers are needed because the difference between the interest revenue from that main business activity and the interest expense incurred to finance that activity is an important measure of such entity's operating performance. Without the requirements, the interest expense would be classified in the financing category, thus preventing presentation of that measure. [IFRS 18.BC180].

As explained in section 3.3.3.G above, if any income and expenses from Type 1 liabilities that do not relate to providing financing to customers are classified in the operating category, the entity is not permitted to present the subtotal 'profit or loss before financing and income tax', because the subtotal already includes financing costs. However, if the operating category does not contain income or expenses from Type 1 liabilities that do not relate to providing financing to customers, the entity is required to present this subtotal. [IFRS 18.73].

### Frequently asked questions

**Question C.5-1: For a banking conglomerate, does the accounting policy in IFRS 18.65(a)(ii) apply to the Type 1 liabilities in the group that are unrelated to the overall main business activity of providing financing to customers?**

(This Question is related to Question 3-32 in section 3.3.3.E above.)

For example, a banking conglomerate has identified a main business activity of providing financing to customers at a consolidated level. Consequently, IFRS 16.56(a) will apply. However, the group has a subsidiary whose activities are unrelated to providing financing to customers.

As discussed above, banks with a main business activity of providing financing to customers have an accounting policy choice to classify the income and expenses from Type 1 liabilities unrelated to providing financing to customers in the operating category (the accounting policy must be consistent with that made for income and expenses from cash and cash equivalents in IFRS 18.56(b)(ii)). [IFRS 18.65(a)(ii)].

This raises the question whether this accounting policy choice also applies to the activities within a banking conglomerate that do not relate to providing financing to customers. I.e., can the policy choice be applied to Type 1 liabilities in the consolidated accounts arising from a subsidiary whose activities are unrelated to providing financing to customers?

### How we see it

Similar to Question C.4-2 in section C.4 above, in our view, the accounting policy choice in IFRS 18.65 is applied at the reporting entity level (i.e., at the level of the consolidated accounts for the conglomerate and the individual accounts for the subsidiary). This means that if, at a consolidated level, it is determined that there is a main business activity of providing financing to customers, then the accounting policy choice in IFRS 18.65(a)(ii) must be applied to all Type 1 liabilities that do not relate to providing financing to customers, irrespective of their origin within the group. This is in contrast to a subsidiary that does not provide financing to customers as a main business activity, where the accounting policy choice is not available for the same income and expenses in their individual financial statements.

#### **Question C.5-2: Can the accounting policy choice in IFRS 18.65 be applied on a liability-by-liability basis to Type 1 liabilities not related to providing financing to customers?**

(This Question is related to Question 3-33 in section 3.3.3.E above.)

The accounting policy choice in IFRS 18.65(a)(ii) applies to all Type 1 liabilities that the entity can distinguish as unrelated to providing financing to customers. Therefore, an entity is not permitted to classify the income and expenses from some Type 1 liabilities unrelated to providing financing to customers in the operating category and the income and expenses from other Type 1 liabilities, also unrelated to providing financing to customers, in the financing category.

#### **Question C.5-3: Can income and expenses from a single Type 1 liability be allocated between the operating and financing categories?**

Entities with a main business activity of providing financing to customers (e.g., banks) might choose, applying the accounting policy choice in IFRS 18.65, to present the income and expenses from Type 1 liabilities unrelated to providing financing to customers in the financing category, to avoid distorting a key performance measure (e.g., 'net interest income') with unrelated interest expenses.

This raises the question of whether such an entity is allowed to allocate the interest expense on a single Type 1 liability that partially relates to providing financing to customers between the operating and financing categories in the statement of profit or loss? I.e., is an entity permitted to classify income and expenses from such a single liability partly in the operating and partly in the financing category?

For example, a bank enters into a loan liability for CU100m and can determine, in a non-arbitrary way, that CU60m of the loan directly relates to its main business activity of providing financing to customers, and the remaining CU40m relates to raising finance to invest in other assets (e.g., equity instruments). The bank has chosen, applying IFRS 18.65, to present the interest on Type 1 liabilities unrelated to providing financing to customers in the financing category. Can the relevant portion of the income and expenses arising from this single liability which are unrelated to providing financing to customers (i.e., the interest on the CU40m) be classified in the financing category?



## How we see it

We believe that if the portion of the loan relating to providing financing to customers can be identified in a non-arbitrary way, it is acceptable for the entity to apply its chosen IFRS 18.65 accounting policy choice to the income and expenses from the remaining portion of the loan and so classify those income and expenses unrelated to providing financing to customers in the financing category.

Making such an allocation in a non-arbitrary way could be challenging in practice and will require the use of judgement based on the particular facts and circumstances. Where an entity is unable to make that judgement in a robust way, the income and expense on the entire loan must be classified in the operating category.

[IFRS 18.66].

For Type 2 liabilities, regardless of an entity's main business activities, only the interest income and expenses identified for the purposes of applying other requirements in IFRS accounting standards are classified in the financing category

For Type 2 liabilities, regardless of an entity's main business activities, only the interest income and expenses (including those arising from changes in interest rates) identified for the purposes of applying other requirements in IFRS accounting standards (i.e., interest income and expenses are required to be separately recognised from other changes in the carrying amount of the liability) are classified in the financing category. [IFRS 18.61, IFRS 18.B54]. All other income and expenses from Type 2 liabilities are classified in the operating category. [IFRS 18.B55]. Refer to section 3.2.2.B above for more information.

Illustration 3-10 in section 3.3.3.E above explains the classification of income and expenses arising from a range of liabilities (Type 1 and Type 2) for an entity with a main business activity of providing financing to customers.

## Frequently asked questions

### Question C.5-4: How would a bank classify the interest expenses on its borrowings?

A bank needs to first determine whether the financial instrument is classified as a financial liability or equity applying IAS 32 *Financial Instruments: Presentation*. Only financial liabilities, or the financial liability portion of a compound instrument, will result in interest expense being recognised in the statement of profit or loss. Thereafter, a bank will need to determine whether its financial liabilities are Type 1 or Type 2 liabilities, to determine the classification of the income and expenses from these liabilities for the purposes of applying IFRS 18.

Generally, banks' financial liability borrowings are expected to be Type 1 liabilities, as they typically relate only to the raising of finance. Therefore, the income and expenses from these liabilities are classified in the operating category if they relate to the main business activity of providing financing to customers, or if they do not relate to providing financing to customers, but the bank has elected as its accounting policy, to classify the related income and expenses in the operating category. If the bank cannot distinguish, in a non-arbitrary way, whether or not the liabilities relate to providing financing to customers, the bank is required to classify the income and expenses from these liabilities in the operating category. As mentioned above, this requirement in IFRS 18.66 does not override the bank's policy election for Type 1 liabilities that it **can** identify as unrelated to providing financing to customers, if the bank has elected to classify income and expense from all such liabilities in the financing category.

**Question C.5-5: How does the classification of income and expenses under IFRS 18 differ for liabilities measured at amortised cost from those measured at fair value through profit or loss?**

The classification of income and expenses from liabilities depends firstly on whether the liability is a Type 1 or Type 2 liability (see section 3.2.2 above) and, secondly, on whether or not the entity has a main business activity of providing financing to customers. The IFRS 9 measurement category can only impact the classification of income and expenses from Type 2 liabilities. For Type 1 liabilities, the IFRS 9 measurement category does not impact the classification of its income or expenses. For example, both the interest expense on issued bonds measured at amortised cost and the fair value change on issued credit linked notes measured at fair value through profit or loss are classified in either the operating or financing category, as explained above.

For Type 2 liabilities, only if the IFRS accounting standards that apply to them require interest income and expenses to be identified, does the IFRS 9 measurement category impact the classification of the income or expenses. [IFRS 18.61, IFRS 18.BC168]. For example, the fair value changes on contingent consideration payable measured at FVTPL under IFRS 9, are classified in the operating category, because neither IFRS 9 nor IFRS 7 requires interest to be recognised on the liability. However, the interest expense recognised on a trade payable with a significant financing component, measured at amortised cost under IFRS 9, is classified in the financing category, because IFRS 9 requires interest to be recognised on the liability.

**Question C.5-6: For an entity that has both main business activities of providing financing to customers and investing in assets, does the accounting policy choice in IFRS 18.65(a)(ii), need to be consistent with the classification of income and expenses from cash and cash equivalents?**

(This Question is related to Question 3-36 in section 3.3.4 above.)

An entity with a main business activity of providing financing to customers has an accounting policy choice to classify the income and expenses on Type 1 liabilities unrelated to providing financing to customers in either the operating or the financing category. This accounting policy must be consistent with the IFRS 18.56(b) accounting policy choice made for cash and cash equivalents. [IFRS 18.56(b)(ii), IFRS 18.65(a)(ii)].

However, if the entity also invests, as a main business activity, in *financial* assets (other than investments in associates, joint ventures and unconsolidated subsidiaries and cash and cash equivalents), it must classify the income and expenses from all cash and cash equivalents in the operating category. [IFRS 18.56(a)]. This is a requirement of IFRS 18.56(a) and is not an accounting policy choice offered by IFRS 18.56(b).

Therefore, since no accounting policy choice in IFRS 18.56(b) has been made, the entity can freely exercise its accounting policy choice in IFRS 18.65(a)(ii) to classify the income and expenses from Type 1 liabilities, which are not related to providing financing to customers in the operating or financing category, irrespective of the classification of income and expenses from its cash and cash equivalents.

If the investments are *non-financial* assets, the entity does have an accounting policy choice in the classification of income and expense from its cash and cash equivalents, and this choice is required to be consistent with the entity's choice for classifying the income and expense from its Type 1 liabilities that are unrelated to providing financing to customers. [IFRS 18.56(b)(ii)]. Refer to sections 3.3.3 and 3.3.4 above for detailed guidance.

**Question C.5-7: How are income and expenses from liabilities that arise from transactions that do not involve only the raising of finance (e.g., lease liabilities and defined benefit obligations) classified under IFRS 18?**

Income and expenses from Type 2 liabilities are classified in the financing or the operating category, as explained above, regardless of the entity's main business activity. There is no accounting policy choice available to entities with a specified main business activity to classify these income and expenses in the operating category.

This will change existing practice for some banks that currently classify interest expenses on lease liabilities or defined benefit obligations in net interest income, i.e., in the operating category. Such banks will be required to classify interest expenses from Type 2 liabilities in the financing category under IFRS 18. The requirement to classify these specific income and expenses in the financing category is to ensure consistent presentation for all entities. [IFRS 18.BC188].

## C.6 Income or expenses from investments in associates, joint ventures and unconsolidated subsidiaries

Section 3.2.1.B above explains that the specified income and expenses from investments in associates, joint ventures or unconsolidated subsidiaries that are equity accounted, are classified in the investing category, irrespective of whether the reporting entity invests in these assets as a main business activity. This is because the reporting entity does not control the activities of these investees, and many users analyse the income and expenses from equity accounted investees separately from the income and expenses of the reporting entity's operations. [IFRS 18.BC114]. Where these investments are not accounted for using the equity method, the specified income and expenses from them are classified in the investing category, unless the reporting entity invests in these assets as a main business activity, in which case the specified income and expenses are classified in the operating category.

### Frequently asked questions

#### Question C.6-1: What are the options available to an entity that considers its equity accounted investments to be part of its operations?

The specified income and expenses from equity accounted investments are classified in the investing category for all entities, irrespective of their main business activity. [IFRS 18.53(a), IFRS 18.55(a)]. However, the transition rules in IFRS 18 and the rules on the presentation of additional subtotals and management-defined performance measures (MPMs), create the following options:

- 1) The transition rules in IFRS 18.C7 permit entities eligible to apply IAS 28.18 to change their election from measuring investments in associates and joint ventures using the equity method to measuring these investments at FVTPL. Eligible entities are "venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds", or other entities that hold their investments in associates and joint ventures through these entities.<sup>37</sup> [IAS 28.18].
- 2) Entities can present an additional subtotal within the investing category to show the results of operating profit, plus the results of the equity accounted investments which relate closely to the entity's main business activity. Refer to Question 3-40 in section 3.3.5.A above, where this is illustrated; as noted in the question, such an additional subtotal would meet the definition of an MPM, unless it includes the income and expenses from *all* equity accounted associates and joint ventures. [IFRS 18.BC367].
- 3) If the entity does not use either of the above options, it can, unless regulatory requirements in the relevant jurisdiction restricts the use of such an alternative *performance* measure, use a non-IFRS measure such as operating profit plus the results of investments in *certain* associates, joint ventures and unconsolidated subsidiaries as a measure to communicate the financial performance of the entity outside the financial statements. This measure would meet the definition of an MPM, unless the income and expenses from *all* equity accounted associates and joint ventures are included in this performance measure. [IFRS 18.118].

Refer to section 4 above for detailed guidance on MPMs.

37 In February 2026, the IASB published Exposure Draft [ED/2026/1 Amendments to the Fair Value Option for Investments in Associates and Joint Ventures](#), available on the IFRS Foundation's website, which proposes to clarify which entities are 'eligible entities'.

## C.7 Foreign exchange differences

As explained in section 3.2.7 above, foreign exchange differences are classified in the category in which the related income and expenses from the item giving rise to the foreign exchange difference have been classified, unless doing so would involve undue cost or effort. When that is the case, the foreign exchange differences are classified in the operating category. [IFRS 18.B68]. As explained in section 3.2.7 above, the disaggregation of foreign exchange differences arising on a Type 2 liability into more than one category is prohibited, and an entity has to use judgement to determine in which category the foreign exchange difference as a whole is classified. This assessment is made on a case-by-case basis and must be consistent for Type 2 liabilities of a similar nature.

As explained in Question 2-2 in section 2.2.2 above, determining whether it is appropriate to present foreign exchange differences in the same line item as the income or expense from the transaction that gave rise to those differences, or as a separate 'foreign exchange differences' line item, is a judgemental area.

### Frequently asked questions

#### Question C.7-1: What does 'undue cost or effort' mean in the context of IFRS 18.B68?

'Undue cost or effort' is not defined in IFRS 18 nor in other IFRS accounting standards. Although not directly applicable, it is worth noting that IFRS 9 and IFRS for SMEs use the same wording:<sup>38</sup>

- IFRS 9.B5.5.49 states that "Information that is available for financial reporting purposes is considered to be available without undue cost or effort." This includes data from risk management systems.
- Under a different framework and, therefore, not direct guidance, section 2.14B of IFRS for SMEs also states that what constitutes 'undue cost or effort' depends on the entity's specific circumstances and management's judgement of the costs and the benefits from applying the requirement. This section and paragraph BC232 of IFRS for SMEs further states that what constitutes 'undue cost or effort' is not intended to be a low hurdle and would be higher for a publicly accountable entity compared to an entity without public stakeholders.

What is available without 'undue cost or effort' is subject to management judgement in balancing the costs of obtaining the information and the associated benefits it provides to users of the financial statements.

The type of information that is subject to the 'undue cost or effort' assessment and its importance to users of the financial statements is relevant in determining its benefit. The more important the information, the higher the hurdle of justification for 'undue cost or effort'. Banks, therefore, have to exercise judgement in determining how important it is to their users to have foreign exchange differences presented separately in the different categories of the income statement.

This assessment is performed for each item that gives rise to a foreign exchange difference, or for items with the same facts and circumstances, and the exemption taken only for those items that are assessed to involve undue cost or effort. [IFRS 18.B68].

The 'undue cost or effort' assessment is made on a transaction by transaction basis. An entity is, therefore, required to make the assessment as new transactions occur which give rise to foreign exchange differences, and at each reporting date, to consider the current year remeasurements of monetary items applying IAS 21.

38 For further guidance on the meaning of 'undue cost or effort', see International GAAP® 2026, Chapter 47 at section 5.9.1. Available on [ey.com/IFRS](https://www.ey.com/IFRS).

## C.8 Gains and losses on derivatives

IFRS 18 contains specific requirements for the classification of gains or losses on derivative financial instruments, which are explained in more detail in section 3.2.8 above. For derivatives used to manage exposures to identified risks, the principle is that gains or losses on both derivatives designated as hedging instruments and those that are not designated as such, are classified in the same category as the income and expenses affected by the risk the derivative is used to manage.

However, if applying this principle leads to grossing up the gains or losses in different categories (for example, the derivatives hedge a group of items with offsetting risk positions and the hedged items are classified in more than one category of the statement of profit or loss), all the gains or losses on those derivatives are classified in the operating category. [IFRS 18.B70, IFRS 18.B74].

Additionally, for derivatives not designated as hedging instruments but used to manage exposure to identified risks, if classifying those gains or losses involves undue cost or effort, all gains or losses on those derivatives are classified in the operating category. [IFRS 18.B72]. The considerations mentioned in Question C.7-1 in section C.7 above could be used to determine what constitutes undue cost or effort in the context of classifying gains or losses on derivatives not designated as hedging instruments.

Refer to section 3.3.3.1 above for guidance on the classification of income and expenses from derivatives not used to manage exposures to identified risks.

### Frequently asked questions

**Question C.8-1: Can the interest accrual or settlement on interest rate swaps be disaggregated and presented in a separate line item from the fair value movements on the derivatives?**

Similar to Question C.2-1 in section C.2 above, an entity would be permitted to disaggregate the interest accrual or settlement on a derivative and present it in a separate line item from (but in the same profit or loss category as) the fair value movement, provided this additional line item is necessary for the statement of profit or loss to provide a useful structured summary.

In addition, as discussed in Question C.2-2 in section C.2 above, the interest disaggregated from the fair value movement, could also be aggregated with another line item in the same profit or loss category for presentation purposes, provided the principles of aggregation are followed (see section 2.2 above). [IFRS 18.41]. Note that these principles only permit items of income to be aggregated with other items of income, and items of expense with other items of expense.

## C.9 Other classification questions

In addition to the questions above, banks may also have the following questions relating to the classification of income and expenses.

### Frequently asked questions

#### Question C.9-1: How are income and expenses from origination fees received for loan commitments classified?

Commitment fees, received by a bank with a main business activity of providing financing to customers, are classified in the operating category. Where the fee (or pro-rata portion of the fee) is included in the effective interest rate of loans to customers, it is part of interest income, and where the fee (or pro-rata portion of the fee) is not included in the effective interest rate of loans to customers, it is part of other fee income under IFRS 15. [IFRS 18.B48(c), IFRS 18.B49, IFRS 9.B5.4.2(b), IFRS 9.B5.4.3(b)].

#### Question C.9-2: Can the expenses related to expected credit losses (or income related to reversals of expected credit losses) under IFRS 9 be presented outside the operating category of a bank?

The answer depends on which assets the expected credit losses relate to and whether those assets are part of the bank's main business activities. Therefore, entities might need to present impairment losses (or reversals of impairment losses) in more than one category within the statement of profit or loss, as explained below: [IFRS 18.B77]

a) Entities with a main business activity of providing financing to customers:

For banks that provide financing to customers as a main business activity, impairment losses (or reversals of impairment losses) from loans to customers must be classified in the operating category. [IFRS 18.B48, IFRS 18.B49]. The classification of impairment losses (or reversals of impairment losses) on other financial assets, depends on whether they are invested in as a main business activity, as explained below.

b) Entities with a main business activity of investing in financial assets:

Financial assets that generate a return individually and largely independently of the entity's other resources in the scope of IFRS 18.53(c) (i.e., financial assets other than cash and cash equivalents, associates, joint ventures or unconsolidated subsidiaries) typically include debt or equity investments. [IFRS 18.B46]. Income and expenses from such assets include impairment losses (or reversals of impairment losses). [IFRS 18.54, IFRS 18.B47]. Where these assets are invested in as a main business activity, impairment losses (or reversals of impairment losses) must be classified in the operating category. [IFRS 18.58].

c) Entities without a specified main business activity:

Impairment losses could arise on receivables for goods and services, as well as on financial assets that generate a return individually and largely independently of the entity's other resources. Such impairment losses (or reversals of impairment losses) recognised by an entity without a specified main business activity would be classified in the operating and investing categories, respectively. [IFRS 18.B48(b), IFRS 18.B46, IFRS 18.B77].

**Question C.9-3: How does the classification of income and expense in the statement of profit or loss impact the classification of the related cash flows in the statement of cash flows?**

The statement of profit or loss and the statement of cash flows have different objectives and the IASB did not seek alignment of the categories between the two statements. *[IFRS 18.BC86]*. For entities with a specified main business activity, the classification of cash flows from dividends received, interest paid and interest received follows the classification of the related income and expenses in the statement of profit or loss. *[IAS 7(2027).34B]*. Where the income and expenses are classified into more than one category in the statement of profit or loss, the entity must apply a 'single category' approach in the statement of cash flows. The entity makes an accounting policy choice to classify the total related cash flows in one of the associated categories in the statement of cash flows. *[IAS 7(2027).34D]*. Dividends received, interest received and interest paid are assessed separately and the total of each respectively is classified in one, but not necessarily the same, category in the statement of cash flows.

Where a bank, with a main business activity of providing financing to customers, does not also have a main business activity of investing in assets, the interest earned on those assets (which is classified in the investing category of the statement of profit or loss) needs to be assessed together with the interest earned on the bank's loans to customers (which is classified in the operating category), and the total interest must be classified, as an accounting policy choice, in a single category in the statement of cash flows. A similar accounting policy choice will have to be made for interest paid where the bank has interest expense in both the operating and financing categories of the statement of profit or loss.

Currently, banks typically classify dividends received as cash flows from operating activities and will have to classify these cash flows as investing activities, if the dividend income is classified in the investing category of the statement of profit or loss, due to the bank not investing in the assets that generated the dividend income as a main business activity.

Cash flows from dividends paid must be included in financing activities, irrespective of whether or not the entity has a specified main business activity. *[IAS 7(2027).33A, IAS 7(2027).BC49]*.

## C.10 Management-defined performance measures

The definition of an MPM is limited to subtotals of income and expenses in order not to go beyond the scope of reporting of financial performance in the statement of profit or loss or the notes

As explained in section 4 above, many entities disclose financial measures in their financial communications outside the financial statements that are not required or defined by IFRS accounting standards. To improve the transparency of these management-defined measures, IFRS 18 introduces disclosure requirements for 'management-defined performance measures' (MPMs). [IFRS 18.BC326]. These disclosures include information about the MPMs' purpose and their relationship to totals and subtotals defined by IFRS accounting standards.

An MPM is defined as a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate to users management's view of an aspect of the financial performance of the entity as a whole (see section 4.2 above). Subtotals specifically required by IFRS accounting standards (including IFRS 18) (see section 4.2.4.A above) and subtotals specified in IFRS 18.118, which are considered to be well understood by users of the financial statements, are excluded from the definition of an MPM. [IFRS 18.BC362]. Subtotals which are considered to be well understood are those whose relationship to totals or subtotals defined by IFRS accounting standards are generally known, or would usually be apparent from their presentation in the statement(s) of financial performance (see section 4.2.4.B above).

The definition of an MPM is limited to subtotals of income and expenses, in order not to go beyond the scope of reporting of financial performance in the statement of profit or loss or the notes. [IFRS 18.BC333]. Therefore, measures of assets, liabilities, equity, liquidity or cash flows are not MPMs. Financial ratios are also not MPMs, however, a subtotal of income and expenses that is the numerator or denominator of a financial ratio could be an MPM if it would have met the definition of an MPM, had the subtotal not been part of a ratio. [IFRS 18.B117]. Such numerators or denominators are subject to the MPM disclosure requirements.

### Frequently asked questions

#### Question C.10-1: Which non-IFRS measures often used by banks could meet the definition of an MPM?

The following non-IFRS measures often used by banks could meet the 'subtotal of income and expenses' requirement and would be an MPM if the other requirements of the definition of an MPM, mentioned above, are met:

- 'Return on tangible equity' or 'return on average ordinary shareholders' equity': although the ratio and denominator are not MPMs, as they are not subtotals of income and expenses, the numerator may be an MPM, if it is an adjusted return.
- 'Underlying profit' or 'profit before impairment': this is not a subtotal required by IFRS accounting standards and is not an excluded subtotal per IFRS 18.118, and could, therefore, be an MPM.
- 'Basic earnings per share, excluding certain items': the ratio is not an MPM, but the numerator may be, if it is an adjusted subtotal of income and expenses.

The following non-IFRS measures often used by banks would not typically meet the 'subtotal of income and expenses' element as they are: 1) financial ratios; and 2) their numerators or denominators are not subtotals of income and expenses, or are specifically excluded by IFRS 18.118:

- 'Net interest margin': the 'Net interest income' numerator is a subtotal of income and expenses that is specifically excluded by IFRS 18.118(a).
- 'Cost to income' ratio: the numerator and denominator is usually a subtotal of *only* expenses or *only* income.

- 'Cost of risk' ratio (also referred to as the 'loan loss rate'): the numerator is usually a subtotal of *only* expenses.
- 'Loan to deposit' ratio: the numerator is a subtotal of assets and the denominator is a subtotal of liabilities.
- 'Net asset value per ordinary share': the numerator is a subtotal of assets and liabilities, and the denominator is a non-financial measure (number of shares).

Capital, liquidity, asset and funding ratios do not typically include a subtotal of income and expenses as a numerator or denominator. Therefore, these measures are not likely to be captured by the disclosure requirements of IFRS 18.

Another element of the definition of an MPM is that the measure must be 'an aspect of the financial performance of the entity as a whole'. Section 4.2.3.B above contains more guidance on this element, and we explain in Question 4-4 in section 4.2.3.B above that segmental measures appear unlikely to provide information about the reporting entity as a whole, but might in certain circumstances.

IFRS 18 requires an entity to disclose information about all its MPMs in a single note to the financial statements and requires that this note includes a statement that MPMs provide management's view and are not necessarily comparable with measures provided by other entities that have a similar label or description. [IFRS 18.122]. Determining whether it is appropriate to include alternative performance measures, which are not also MPMs, within the notes to the financial statements, will require significant judgement, and the considerations that must be taken into account are discussed in more detail in section 4.2 above.

Entities are not prohibited from presenting MPMs on the face of the statement(s) of financial performance (the term used in IFRS 18 to refer to the single statement of profit or loss and other comprehensive income or the separate statement of profit or loss and separate statement presenting comprehensive income - see section 1.2 above). However, in doing so, the additional line items or subtotals need to be necessary for the statement to provide a useful structured summary and they must comply with the requirements in IFRS 18.24 (see section 2.1.1.B above). An entity that presents an MPM in the statement(s) of financial performance would also need to disclose all the information required for MPMs in a single note, even if this results in duplication. [IFRS 18.BC375]. See sections 4.3 and 4.4 above for detailed guidance on the disclosure and presentation requirements of MPMs.

## C.11 Consequential amendments to other IFRS accounting standards

See section 5 above for guidance on the effect of consequential amendments on other IFRS accounting standards. Two consequential amendments to highlight for banks are the amendments to IAS 7 and IAS 33.

The amendments to IAS 7 are discussed in section 5.1 above and the impact on the classification of cash flows from dividends and interest, for an entity with a specified main business activity, is discussed in Question C.9-3 in section C.9 above. The amendments to IAS 33 limit the additional amounts per share, using a measure of performance as a numerator, an entity can disclose to: *[IAS 33(2027).73B]*

- A total or subtotal required by IFRS 18.69 or IFRS 18.86, commonly understood subtotals listed in IFRS 18.11

Or

- An MPM

The additional amounts per share can only be disclosed in the notes, rather than presented in the income statement. Basic and diluted amounts per share, if disclosed, must be disclosed with equal prominence.

*[IAS 33(2027).73C].*

## C.12 Index of Frequently asked questions

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The following frequently asked questions, are answered in the main body of this publication, and may also be relevant to banks:

**Presentation:**

Question 2-1: Is it acceptable to present separately realised and unrealised gains and losses on financial instruments at fair value through profit or loss?

Question 3-3: Can an entity present gains or losses on disposal of an equity accounted investment in the same line item as the share of profit or loss from an equity accounted investment?

**Classification:**

Question 3-9: How are transaction costs incurred in acquiring investments in other entities classified in profit or loss?

Question 3-12: Is it acceptable to disaggregate the 'time value' element from the remeasurement of a Type 2 liability for the purpose of determining the appropriate category?

- Question 3-16: Where are gains and losses arising from the remeasurement of contingent consideration in a business combination classified?
- Question 3-21: How are foreign exchange differences on intercompany loans, eliminated on consolidation, classified in profit or loss?
- Question 3-24: In separate financial statements, where does a parent classify the income and expenses from its investments in subsidiaries accounted for at cost?
- Question 3-28: How are transaction costs incurred in acquiring an equity investment (without control, joint control or significant influence) in other entities classified in profit or loss?
- Question 3-40: Can an entity present an additional subtotal for the income of only some equity accounted investments within the investing category?

**Management-defined performance measures:**

- Question 4-1: Can the numerator of a ratio be an MPM, even if the numerator is never communicated by itself outside the financial statements?
- Question 4-3: Can a 'what if' income and expense based alternative performance measure be an MPM?
- Question 4-4: When would a reportable segment profit measure represent 'an aspect of the financial performance of the entity as a whole'?
- Question 4-5: Can additional subtotals included in profit or loss applying IFRS 18.24, meet the definition of an MPM?
- Question 5-1: Can an entity disclose an additional earnings per share measure based on a numerator that does not comply with IAS 33.73B?
- Question 5-2: Can an IFRS 18.B117 MPM be the basis for an additional earnings per share measure?

## Appendix D - Defined terms

Extract from IFRS 18

### Appendix A Defined terms

*This appendix is an integral part of the IFRS Accounting Standard.*

|   |  |
|---|--|
| <b>aggregation</b>                                      | The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.   |
| <b>classification</b>                                   | The sorting of assets, liabilities, equity, income, expenses and cash flows based on shared characteristics.   |
| <b>disaggregation</b>                                   | The separation of an item into component parts that have characteristics that are not shared.  |
| <b>IFRS Accounting Standards</b>                        | Accounting standards issued by the International Accounting Standards Board. They comprise:<br>(a) International Financial Reporting Standards;<br>(b) International Accounting Standards;<br>(c) IFRIC Interpretations; and<br>(d) SIC Interpretations.<br>IFRS Accounting Standards were previously known as International Financial Reporting Standards, IFRS, IFRSs and IFRS Standards.                                |
| <b>management-defined performance measure</b>           | A subtotal of income and expenses that:<br>(a) an entity uses in public communications outside financial statements;<br>(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<br>(c) is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards. |
| <b>notes</b>  | Information in financial statements provided in addition to that presented in the primary financial statements.  |
| <b>operating profit or loss</b>                         | The total of all income and expenses classified in the operating category.   |
| <b>primary financial statements</b>                     | The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.  |
| <b>profit or loss</b>                                   | The total of income less expenses included in the statement of profit or loss.   |
| <b>profit or loss before financing and income taxes</b> | The total of operating profit or loss and all income and expenses classified in the investing category.  |

**useful  
structured  
summary**

A structured summary provided in a primary financial statement of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows that is useful for:

- (a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;
- (b) making comparisons between entities, and between reporting periods for the same entity; and
- (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

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