KPMG

Presentation and disclosure

IFRS 18

IFRS® Accounting Standards

First Impressions | June 2024

kpmg.com/be/ifrs

Contents

Re-shaping financial statement presentation 1

References and abbreviations 2

1 IFRS 18 at a glance 4
1.1 Key impacts 4
1.2 Key actions 6

2 Income statement structure 7
2.1 Classifying income and expenses 8
2.2 Analysis of operating expenses 37
2.3 Income and expenses totals and subtotals 42

3 Management-defined performance measures 45
3.1 New definition 45
3.2 Where to include MPMs 49
3.3 What to disclose for MPMs 50
3.4 Interaction with regulatory requirements 52

4 Aggregation and disaggregation 53
4.1 Newly defined roles 53
4.2 Principles of aggregation and disaggregation 56
4.3 Guidance for labels and descriptions 59

5 Other changes for the financial statements 61
5.1 Statement of cash flows 61
5.2 Balance sheet 62
5.3 Additional earnings per share (EPS) disclosures 62

6 Interim financial reporting 63
6.1 Interim financial reporting 63
6.2 Transition to IFRS 18 in interim financial statements 64

7 Effective date and transition 65
7.1 Effective date 65
7.2 Transition to IFRS 18 65

8 Special considerations for banks and insurers 67
8.1 Banks 67
8.2 Insurers 74

Appendix 83

List of examples 84

List of illustrative income statements 84

About this publication 85

Re-shaping financial statement presentation

More consistency, comparability and transparency

Investors are demanding more relevant information and transparency in the presentation of companies' financial statements. They also want greater comparability between financial statements and more consistency in how particular financial measures are communicated.

IFRS 18 *Presentation and Disclosure in Financial Statements* seeks to respond to these demands by requiring a more structured income statement and greater disaggregation of information. It also makes management-defined performance measures part of the audited financial statements for the first time. This will bring more credibility to certain key performance indicators. Together, the new requirements will help companies to better tell their story and connect their reporting in the financial statements.

IFRS 18 will impact all companies across different industries. Although companies' net profit will remain unchanged, many will see changes to the structure of their income statement. For some, the changes will be significant, depending on their current presentation practice under IFRS® Accounting Standards. Given there is currently no live benchmark, comparability will build over time.

The new standard is effective for annual periods beginning on or after 1 January 2027 but preparing for its implementation will take time. Companies need to focus on the detailed requirements to apply them to their specific circumstances, rather than simply relying on the illustrations in the standard. Management needs to make new judgements, navigate complexities and oversee changes to systems and processes.

Now is the time to get ready. We hope that this publication will help you to understand the new standard and its impacts. It sets out our guidance, insights and analysis on applying the new standard, together with illustrative examples.

Gabriela Kegalj

Wietse Koster

Agnieszka Sekita

KPMG global IFRS presentation leadership team

KPMG International Standards Group

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

References and abbreviations

References

References are included in the left-hand margin of this publication.

IFRS 18.41 Paragraph 41 of IFRS 18.

Abbreviations

The following abbreviations are used in this publication for specific terms used in IFRS 18 and are denoted throughout using inverted commas – e.g. 'operating assets'.

	Abbreviation	Original term used in IFRS 18
Assets	**Operating assets**	Assets that do not generate a return individually and largely independently of an entity's other resources
	Non-operating assets	Assets that generate a return individually and largely independently of an entity's other resources
Liabilities	**Financing liabilities**	Liabilities that arise from transactions that involve only the raising of finance
	Other liabilities	Liabilities that arise from transactions that do not involve only the raising of finance

In addition, the following terms and abbreviations are used in this publication.

Abbreviation	Explanation
Common income and expenses subtotals listed in IFRS 18	Subtotals that are often presented on the face of the income statement and listed in paragraph 118 of IFRS 18, for example: • gross profit or loss (revenue minus cost of sales) and similar subtotals; • operating profit or loss before depreciation, amortisation and impairments in the scope of IAS 36 *Impairment of Assets* (OPDAI); and • profit or loss before income taxes.
Disclose	An entity discloses information in the notes
Investing in assets	Investing in the following particular types of assets (referred to as 'non-operating assets'): • investments in associates, joint ventures and unconsolidated subsidiaries; • cash and cash equivalents; or • other 'non-operating assets'.
Most useful structured summary	In the operating category of the income statement, an entity classifies and presents expenses in line items in a way that provides the most useful structured summary of its expenses. The term most useful structured summary is not defined in IFRS 18; however, useful structured summary is defined.
MPM	Management-defined performance measure

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Abbreviation	Explanation
Nature expenses	In classifying expenses by nature ('nature expenses'), an entity provides information about operating expenses relating to the nature of the economic resources consumed. This includes information about raw material expense, employee benefit expense, depreciation and amortisation.
OPDAI	Operating profit or loss before depreciation, amortisation and impairments in the scope of IAS 36
Present	An entity presents information in the primary financial statements
Specified main business activities	A main business activity of: • investing in assets; or • providing financing to customers.
Unconsolidated subsidiaries	Investments in subsidiaries that are not consolidated but accounted for at cost, at fair value or under the equity method.

Areas requiring particular attention

In Section 2.1 of this publication, we set out the general requirements that all entities apply when classifying items of income and expenses into each of the three new categories in the income statement. However, entities with specified main business activities also need to apply additional specific requirements to classify additional income and expenses in the operating category. To indicate these additional specific requirements that apply for those entities, we include this symbol in the margin.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

1 IFRS 18 at a glance

1.1 Key impacts

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*.[1]

The impacts of the new standard are pervasive. Many aspects of financial statement presentation and disclosure will be affected, particularly the income statement.

The key impacts of IFRS 18 can be summarised as follows.

More structured income statement (Chapter 2)	
Classify income and expenses into three new categories (Section 2.1)	All entities classify income and expenses into five categories, three of which are new – **operating, investing and financing**. Results from **equity-accounted investees are presented below operating profit** – i.e. in the investing category.
Main business activities drive classification of income and expenses (2.1.1)	**Additional specific requirements** apply for entities with **specified main business activities – i.e. investing in assets and/or providing financing to customers**. Under these additional specific requirements, **some income and expenses are classified in the operating category** rather than the investing or financing category. **Assessment of main business activities applies at a reporting entity level** – specified main business activities of the **group** may differ from those of **individual entities** and therefore they may classify income and expenses differently. Additional **consolidation adjustments** may be required for the group income statement.
Other requirements apply for certain income and expenses (2.1.4 – 2.1.7)	**Other requirements** apply for classifying certain items, including gains and losses on derivatives and hedging instruments as well as foreign exchange differences. **Foreign exchange differences** are presented in same category as the income/expenses that gave rise to the differences.
Present analysis of operating expenses on the face (Section 2.2)	Present an analysis of operating expenses either **by nature, by function or on a mixed basis** on the face of the income statement. Entities choose the presentation method that reflects the **most useful structured summary** of operating expenses. If any operating expenses are presented by function (i.e. under the by-function or mixed presentation method), then **new disclosures** apply.
Present newly defined subtotals (Section 2.3)	**Two newly defined subtotals** are presented on the face of the income statement, including **operating profit**.

1. IAS 1 will be withdrawn and replaced by IFRS 18. However, some of its existing general requirements will continue to apply – e.g. the requirements on classifying assets and liabilities as current or non-current and going concern considerations. Key topics in IAS 1 that remain unchanged in IFRS 18 or are moved to other IFRS accounting standards are summarised in the Appendix.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

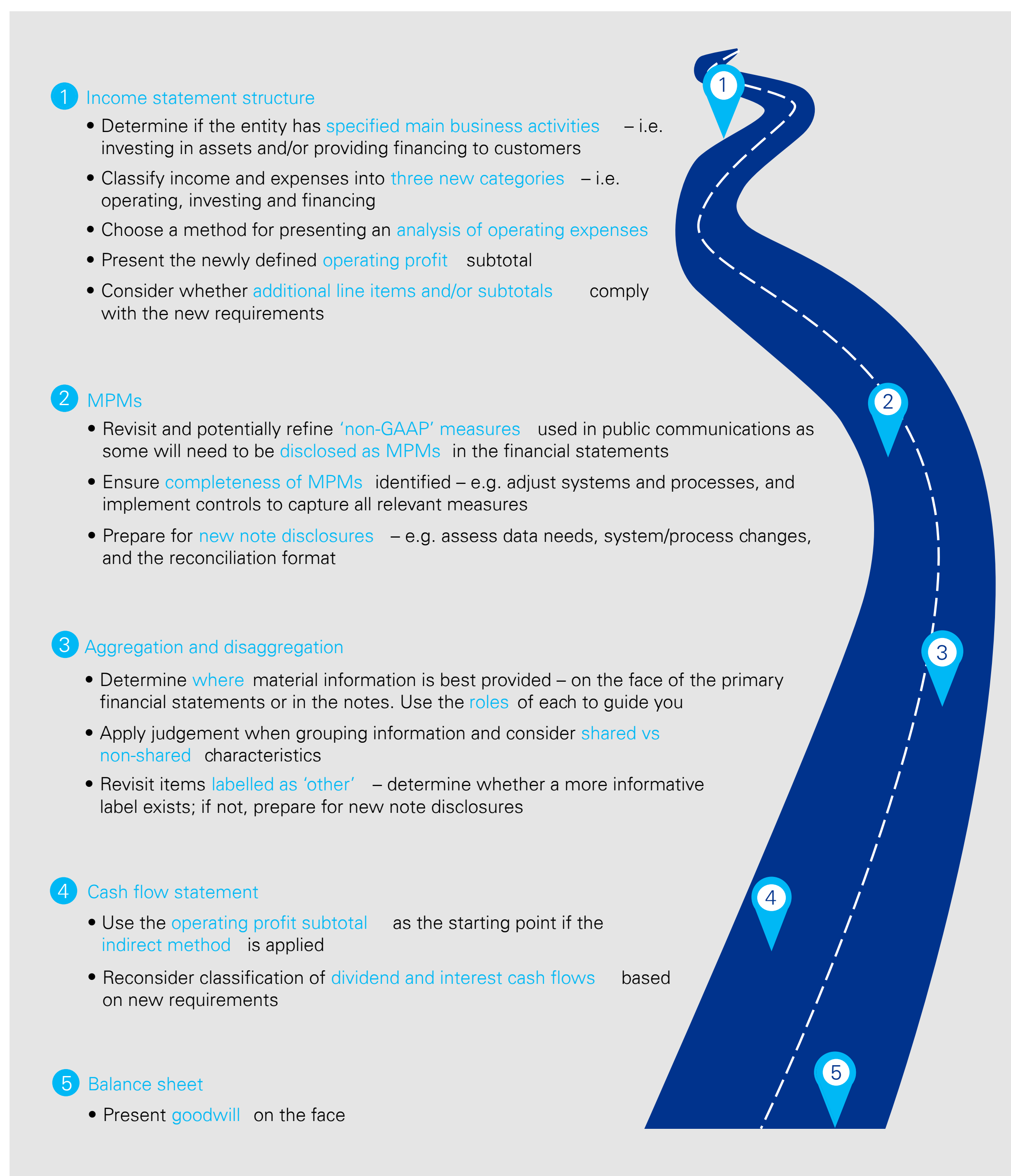
MPMs defined and disclosed (Chapter 3)	
Disclose management-defined performance measures (MPMs) (Chapter 3)	**New definition of MPMs** applies – some but not all 'non-GAAP' measures are captured. MPMs are **disclosed in a single note** to the financial statements and are **subject to audit**. Specific **disclosures, including reconciliations**, are required.
Enhanced guidance on aggregation and disaggregation (Chapter 4)	
Consider roles of primary financial statements and notes (Section 4.1)	IFRS 18 introduces defined and complementary roles for the primary financial statements and the notes to guide entities when making decisions about **where** to provide material information.
Principles for grouping information (Section 4.2)	Enhanced principles of aggregation vs disaggregation based on **shared vs non-shared characteristics**.
Labelling items as 'other' (Section 4.3)	IFRS 18 **discourages entities from labelling items as 'other'**, requiring them to determine whether a more informative label exists. Additional disclosures apply for items labelled as 'other'.
Other changes (Chapter 5)	
Statement of cash flows (Section 5.1)	**Indirect method** starts with the operating profit subtotal. Elimination of classification options for **interest and dividend** cash flows.
Balance sheet (Section 5.2)	**Goodwill** presented as a separate line item.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

1.2 Key actions

When preparing for implementation of IFRS 18:

- assess the impacts on the entity's financial statements – including new judgements;
- communicate the impacts with investors;
- consider how the new requirements impact financial reporting systems, processes and controls; and
- monitor any changes in the local reporting landscape.



© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2 Income statement structure

More structured income statement with three newly defined categories of income and expenses and two newly required profit subtotals

Overview

Under current IFRS Accounting Standards, entities use different formats to present their results, making it difficult for investors to compare financial performance across entities. IFRS 18 does not change an entity's net profit but promotes a more structured income statement.

In particular, IFRS 18 requires all entities to:

- classify all income and expenses into five categories, three of which are new (see Section 2.1), based on their main business activities (see 2.1.1);
- present a newly defined 'operating profit' and other subtotals on the face of the income statement (see Section 2.3); and
- present operating expenses either by function, by nature or on a mixed basis on the face of the income statement (see Section 2.2).

Classification of income and expenses depends on the main business activities of an entity. Therefore, it may vary between different industries – e.g. manufacturers, banks, insurers and investment property companies.

IFRS 18.IE10

The illustration below applies to entities that do not invest in assets or provide financing to customers as a main business activity – e.g. an entity whose only main business activity is manufacturing. An income statement for entities that invest in assets and/or provide financing to customers as a main business activity is illustrated in 8.1.1.1, 8.2.1 and 8.2.5

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

	Illustrative income statement Entities without specified main business activities[1]		
New categories: Operating [2]	Revenue	X	
	Operating expenses (analysed by nature, function or both as appropriate)	(X)	
	Operating profit or loss	X	New subtotals
New categories: Investing [2]	Share of profit or loss of equity-accounted investees	X	
	Income from other investments	X	
	Interest income from cash and cash equivalents	X	
	Profit or loss before financing and income tax [3]	X	New subtotals
New categories: Financing [2,3]	Interest expense on borrowings and lease liabilities	(X)	
	Interest expense on pension liabilities	(X)	
	Profit or loss before income tax	X	
Income tax	Income tax expense	(X)	
	Profit or loss from continuing operations	X	
Discontinued operation	Profit or loss from discontinued operation	X	
	Profit or loss	X	

Notes:

[1] Entities with specified main business activities of 'investing in assets' (e.g. insurers, investment property companies) or providing financing to customers (e.g. banks) classify additional income and expenses in the operating category, which would otherwise be classified in the investing or financing category.

[2] The operating, investing and financing categories are not aligned with those for the cash flow statement.

[3] Entities providing financing to customers as their only main business activity (e.g. banks) typically do not present this subtotal.

2.1 Classifying income and expenses

IFRS 18.47

IFRS 18 requires entities to classify income and expenses into five categories, three of which are new – i.e. operating, investing and financing – and the income tax and discontinued operation categories.

The new standard sets out detailed requirements for classifying income and expenses into each category. However, its key premise is that the operating category, and therefore operating profit, provides a complete picture of an entity's operations. This means that the operating category typically includes income and expenses from an entity's main business activities (see 2.1.2.1).

Categories of income and expenses

	Category	Description
New categories	Operating category	Income and expenses from an entity's main business activities and any income and expenses that are not classified in other categories
New categories	Investing category	Income and expenses from investments made individually and largely independently of the entity's main business activities
New categories	Financing category	Income and expenses relating to obtaining finance to fund the entity's main business activities and/or investing activities
	Income tax category	Tax expense or tax income and any related foreign exchange differences
	Discontinued operation category	Income and expenses from discontinued operations

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.49

For operating profit to provide a complete picture of an entity's operations, IFRS 18 introduces a new assessment requiring an entity to determine whether it has either or both of the following business activities as a *main* business activity.

- Investing in particular types of assets (referred to as 'investing in assets' throughout this publication)
- Providing financing to customers.

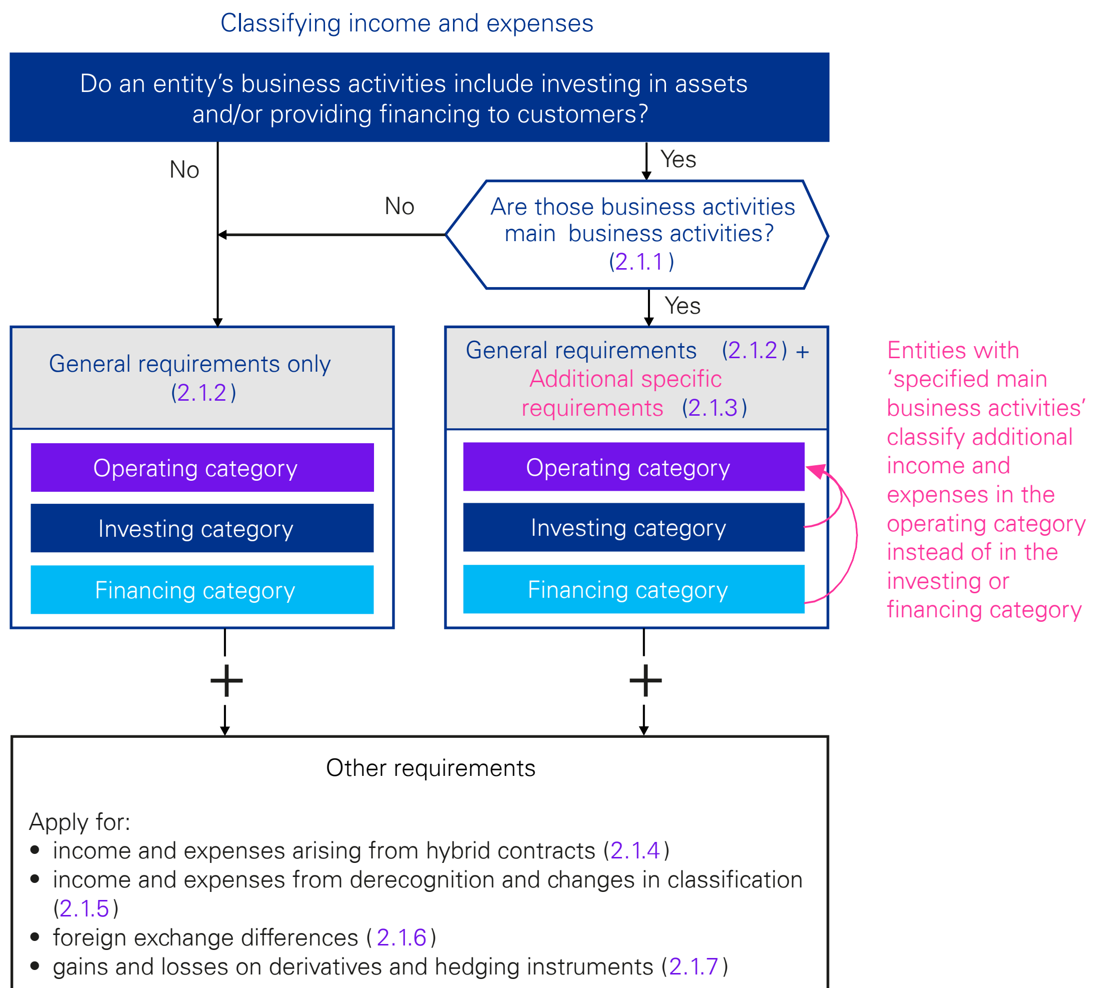
IFRS 18.55-58, 65-66

Entities with these 'specified main business activities' – e.g. banks, insurers or investment property companies – are required to classify additional income and expenses in the operating category that they would otherwise classify in the investing or financing category (see 2.1.3).

IFRS 18.B30

For entities with multiple main business activities that include specified main business activities amongst their main business activities, classifying income and expenses into different categories may be more complex. This is because they are subject to both the requirements that apply to entities with specified main business activities (see 2.1.3) and those that apply to entities without specified main business activities (see 2.1.2).

Classifying income and expenses



© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.1.1 Assessment of specified main business activities

IFRS 18.B30

To classify income and expenses into the three new categories under IFRS 18, an entity needs to first determine whether it has either or both of the two specified main business activities – i.e. investing in assets and/or providing financing to customers. An entity may have more than one main business activity. For example, an entity that manufactures a product and also provides financing to customers may determine that both its manufacturing activity and customer-financing activity are main business activities.

IFRS 18.B33

Whether an entity has specified main business activities is a matter of fact rather than an assertion. As such, this assessment requires judgement based on the entity's individual facts and circumstances and needs to be supported by evidence.

IFRS 18.B34, B123

Under IFRS 18, investing in assets or providing financing to customers is likely to be an entity's main business activity if the entity uses a particular type of subtotal as an important indicator of operating performance. Such a subtotal is one similar to gross profit (see 2.3.3) that includes income and expenses, which would be classified in the investing or financing category if investing in assets or providing financing to customers were not main business activities.

Examples of evidence to support an entity's assessment include the following.

IFRS 18.B35

- A subtotal, as described above, that an entity uses to explain its operating performance externally, or for assessing or monitoring it internally. For example, if the entity includes rental income from its investment properties in a subtotal similar to gross profit and uses that subtotal to communicate its operating performance to investors, then this provides evidence that the subtotal is an important indicator of the entity's operating performance. In this case, investing in these properties is likely to be a main business activity of the entity.

IFRS 18.B36

- Information provided in a segment note under IFRS 8 *Operating Segments*. Specifically, if a reportable segment comprises a single business activity, then it indicates that the business activity is a main business activity. In contrast, if an operating segment comprises a single business activity, then it does not necessarily indicate that the business activity is a main business activity. However, if the performance of that operating segment is an important indicator of the entity's operating performance, then this may indicate that it is a main business activity. In these circumstances, entities will need to exercise judgement (see Example 1 below).

IFRS 18.51(a), (b), BC100

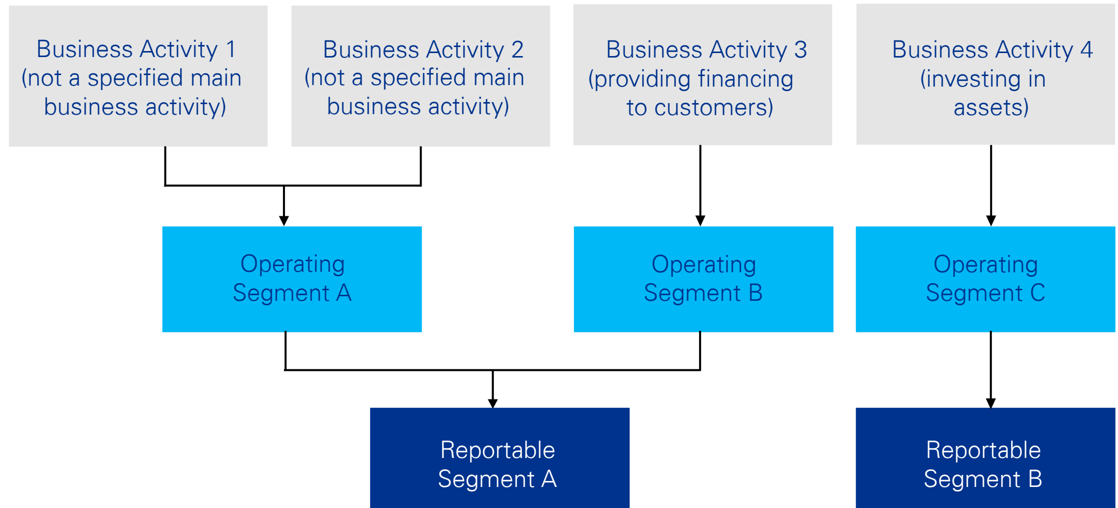
If an entity invests in assets or provides financing to customers as a main business activity, then it discloses this fact.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Example 1 – Interaction with operating segments

IFRS 18.B36, BC97

Entity X applies the requirements of IFRS 8 and identifies operating segments and reportable segments as follows.



X assesses whether it has either or both of the specified main business activities – i.e. investing in assets and/or providing financing to customers – and concludes as follows.

Business activity	Assessment of specified main business activities
Business Activity 1	Not applicable. These are business activities of X; however, they are not specified main business activities under IFRS 18.
Business Activity 2	
Business Activity 3	Operating Segment B comprises solely this business activity. However, it is not the only business activity in Reportable Segment A. Therefore, X needs to consider whether the performance of Operating Segment B is an important indicator of its operating performance. X assesses that it is an important indicator because when communicating its operating performance internally and externally, it uses a subtotal similar to gross profit that includes the result of Operating Segment B. Therefore, X concludes that providing financing to customers is a specified main business activity.
Business Activity 4	Reportable Segment B comprises solely this business activity. Therefore, X concludes that investing in assets is a specified main business activity.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Does an entity need to assess whether each of its business activities is a main business activity?

IFRS 18.B30

No. To classify income and expenses into different categories under IFRS 18, an entity needs only to assess whether investing in assets and/or providing financing to customers is a main business activity – i.e. assess whether it has 'specified' main business activities. This is because income and expenses from other business activities would be classified in the operating category regardless of whether those business activities are main business activities.

Assessing whether entities have specified main business activities may be straightforward for some, but less so for others. For example, assessing whether investing in property is a main business activity for an investment property company may be straightforward. However, a car manufacturer that also invests in property may need to exercise judgement to determine whether it invests in property as a main business activity.

Is a direct alignment between operating segments and specified main business activities expected?

IFRS 18.B34-B36, BC97, IFRS 8.5

Not necessarily. The general indicator of a specified main business activity in IFRS 18 is whether entities use a subtotal similar to gross profit that includes income and expenses from that business activity as an important measure of their operating performance. Interaction with IFRS 8 when a reportable segment or an operating segment comprises a single business activity is provided as an example of possible supporting evidence.

Depending on the facts and circumstances, an entity could identify a business activity that is smaller than an operating segment as a specified main business activity. This could occur when the entity uses a subtotal similar to gross profit that includes income and expenses from that business activity as an important indicator of its operating performance.

The interaction between operating segments and using a subtotal similar to gross profit to assess specified main business activities is not entirely clear and may involve judgement.

What level of evidence might be required for the assessment of specified main business activities?

IFRS 18.B34-B36, BC97, IFRS 8.5

It depends. For some entities, it will be clear that they have specified main business activities based on both external and internal subtotals. For others, it may be less obvious.

IFRS 18 suggests that evidence can be a subtotal similar to gross profit that an entity uses as an important indicator of its operating performance for external communication or internal monitoring purposes. Whether an entity has specified main business activities drives the classification of income and expenses in the income statement. Therefore, it is important that entities have sufficient evidence to support their assessment.

Because IFRS 18 provides only possible indicators/evidence for the assessment of specified main business activities, the level of evidence required depends on an entity's facts and circumstances, and may involve judgement. This applies particularly when the evidence is based solely on a subtotal similar to gross profit that is only used internally.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Would an entity with a single operating segment, which is also its only reportable segment, classify all income and expenses in the operating category?

IFRS 18.47-48

Not necessarily. In general, it would not be appropriate for the entity to assume that all income and expenses are classified in the operating category. For example, the entity may still have income and expenses from investments that are classified in the investing category (e.g. share of profit or loss of equity-accounted investees) and income and expenses from liabilities that are classified in the financing category (e.g. interest expenses on pension liabilities).

Are 'main business activities' in IFRS 18, 'ordinary activities' under IFRS 15 and 'principal revenue-generating activities' under IAS 7 the same?

IFRS 15.Appendix A, BC247, IFRS 18.B42, IAS 7.6

Not necessarily. IFRS 18 provides no specific guidance on any relationship between these three concepts.

However, revenue presented in the income statement includes income generated in the course of an entity's ordinary activities. This income is not limited to revenue from contracts with customers in the scope of IFRS 15 *Revenue from Contracts with Customers*. Therefore, income and expenses classified in the operating category may relate to activities other than those generating revenue in the scope of IFRS 15.

Similarly, the International Accounting Standards Board (IASB) decided not to align the definition of operating activities under IAS 7 *Statement of Cash Flows* with the operating category under IFRS 18. The IASB noted that the statement of cash flows and the income statement have different purposes and that alignment would not necessarily aid in financial statements users' understanding of either statement.

2.1.1.1 Assessment of specified main business activities in a group

IFRS 18.B37

Assessing whether an entity has specified main business activities is performed from the perspective of the reporting entity itself.

IFRS 18.BC98-BC99

This means that in the consolidated financial statements of a group, the assessment is performed from the perspective of the group as a whole. This may differ from a parent's assessment in its separate financial statements and a subsidiary's assessment in its own financial statements – i.e. the group, the parent and the subsidiary could each have different main business activities and, therefore, may classify income and expenses differently. As such, when preparing the consolidated income statement (and the consolidated statement of cash flows – see 5.1.1), additional consolidation adjustments may be required.

For example, a subsidiary might assess that it invests in assets as a main business activity in its own financial statements. However, the group might reach a different conclusion in the consolidated financial statements. Equally, a group and a subsidiary might each conclude that they provide financing to customers as a main business activity, whereas a parent that is a holding company might reach a different conclusion in its separate financial statements.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Example 2 – Assessment of specified main business activities in different sets of financial statements within a group

IFRS 18.B37, BC98-BC99

Scenario A – Different conclusions for the subsidiary and the group

The group comprises Parent P (a car manufacturer) and its subsidiaries. All of the subsidiaries are also in the business of car manufacturing or related activities except for one subsidiary S, which is an investment property company.

In S's own financial statements, it reports a single reportable segment that comprises solely the business activity of investing in property.

In the group's consolidated financial statements, the business activity of investing in property does not form an operating segment on its own. The group does not use a subtotal similar to gross profit that includes income and expenses from this business activity to communicate the group's operating performance internally or externally.

Assessment of specified main business activities

In its own financial statements, S concludes that investing in property is a specified main business activity. This is because its reportable segment comprises a single business activity of investing in property.

In the consolidated financial statements, the group concludes that investing in property is not a specified main business activity. This is because the group does not use a subtotal similar to gross profit that includes the result from investing in property as an important indicator of the group's operating performance. As such, consolidation adjustments will be required when preparing the consolidated income statement (and the consolidated statement of cash flows – see Section 5.1) – e.g. rental income in S is reclassified from the operating category in S's own income statement to the investing category in the group's consolidated income statement.

Scenario B – Different conclusions for the parent and the group

The group comprises Parent Q (a holding company) and its subsidiaries that engage in diverse businesses. One of the subsidiaries, R, is a retail bank.

In its separate financial statements, Q reports a single reportable segment that comprises solely the business activity of investing in subsidiaries.

In its own financial statements, R reports a single reportable segment that comprises solely the business activity of providing financing to customers.

R's business activity of providing financing to customers is disclosed as a separate reportable segment in the group's consolidated financial statements.

Assessment of specified main business activities

In its own financial statements, R concludes that providing financing to customers is a specified main business activity because its reportable segment comprises a single business activity of providing financing to customers.

In the consolidated financial statements, the group also concludes that providing financing to customers is a specified main business activity because one of its reportable segments comprises a single business activity of providing financing to customers.

In its separate financial statements, Q's assessment of whether it provides financing to customers as a main business activity is irrelevant because it does not undertake this activity. Instead, Q concludes that it only has a specified main business activity of investing in assets (i.e. its subsidiaries).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.1.1.2 Assessment of whether investing in assets is a specified main business activity

IFRS 18.49(a), 53, 55-58, B31

IFRS 18 requires entities investing in the following types of assets to assess whether they do so as a main business activity.

- Investments in associates, joint ventures or unconsolidated subsidiaries *not* accounted for under the equity method. For example, investment entities as defined in IFRS 10 *Consolidated Financial Statements* may invest in these types of assets as a main business activity.
- Other 'non-operating assets'[2] – e.g. debt or equity investments, investment properties and rent receivables from those properties. Typical examples of entities that invest in these types of assets as a main business activity are investment property companies (non-financial assets) and insurers (financial assets).

IFRS 18.B39

Entities are not required to assess whether they invest in cash and cash equivalents as a main business activity. This is because classification of income and expenses from cash and cash equivalents does not change depending on whether entities invest in cash and cash equivalents as a main business activity. Rather, it depends on whether entities invest in financial assets (other than investments in associates, joint ventures and unconsolidated subsidiaries, and cash and cash equivalents) and/or provide financing to customers as a main business activity.

Investments in associates, joint ventures or unconsolidated subsidiaries not accounted for under the equity method

IFRS 18.B38

Entities need only to assess whether they invest in these assets as a main business activity if the investments are not equity-accounted. This is because if the investments are equity-accounted, income and expenses from the investments are always classified in the investing category.

IFRS 18.B38

When an entity assesses whether it invests in non-equity-accounted investments as a main business activity, it does so by assessing an individual asset or using a group of assets with shared characteristics (see Section 4.2). When performing the assessment for groups of assets in separate financial statements, the groups need to be consistent with the categories used to determine their measurement basis under paragraph 10 of IAS 27 *Separate Financial Statements*. For example, if associates are accounted for under IFRS 9 *Financial Instruments*, but unconsolidated subsidiaries are accounted for at cost in the separate financial statements, then an entity assesses separately whether investing in associates and unconsolidated subsidiaries are a main business activity.

Other 'non-operating assets'

IFRS 18.B40

When an entity assesses whether it invests in other 'non-operating assets' as a main business activity, it does so by assessing an individual asset or using groups of assets with shared characteristics (see Section 4.2). When performing the assessment for groups of financial assets, the groups need to be consistent with the classes of financial assets identified by the entity under paragraph 6 of IFRS 7 *Financial Instruments: Disclosures*.

2.1.1.3 Change in assessment of specified main business activities

IFRS 18.B41, BC101

An entity assesses whether it has specified main business activities based on the facts and circumstances at the time – i.e. the assessment is not only a reporting date assessment. If the entity reassesses its main business activities, then it classifies and presents income and expenses by applying the change in assessment prospectively; it does not reclassify amounts presented before the change. For example, if an entity reassesses its main business activities at the start of the reporting period, then it does not reclassify the prior period comparative amounts.

2. 'Non-operating assets' refer to assets that generate a return individually and largely independently of an entity's other resources.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.51(c), BC102

If an entity changes its main business activities, then it discloses:

- the fact that its assessment has changed and the date of that change; and
- for items of income and expenses for which the classification has changed, the amount and classification of those items before and after the change in the current and prior periods, unless it is impracticable to do so. If the entity does not disclose the information because it is impracticable, then it discloses that fact.

Do the general requirements in IFRS 18 for changes in presentation, disclosure or classification (retrospective application) also apply to changes in an entity's specified main business activities?

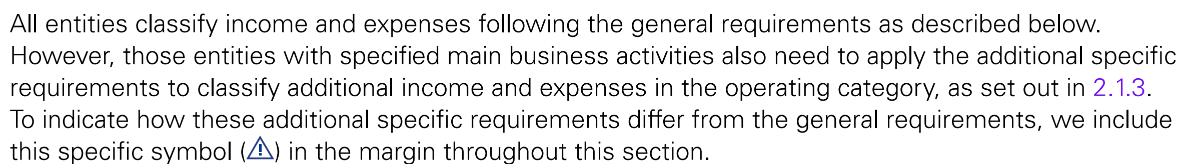
IFRS 18.30-40, 51(c) B12, B41, BC101-BC102

No. As set out in paragraph B41 of IFRS 18, assessing whether an entity has specified main business activities is based on the facts and circumstances at the time, with any changes in the assessment accounted for prospectively.

For example, following the acquisition of a real estate business on 1 July 20X7, an entity with a calendar year-end changes its assessment because investing in property is now a main business activity. The entity does not reclassify income and expenses relating to its investment property activities from the investing category to the operating category before 1 July 20X7 or in comparative periods. Instead, it provides the disclosures required under paragraph 51(c) of IFRS 18.

This is in contrast to the general requirements on changes in presentation, disclosure or classification of items in the financial statements in paragraphs 30-40 of IFRS 18 – e.g. changes in the method of presenting operating expenses from by-function to by-nature (see 2.2.3). These are accounted for retrospectively under IFRS 18 – i.e. comparative amounts are restated.

2.1.2 General requirements



All entities classify income and expenses following the general requirements as described below. However, those entities with specified main business activities also need to apply the additional specific requirements to classify additional income and expenses in the operating category, as set out in 2.1.3. To indicate how these additional specific requirements differ from the general requirements, we include this specific symbol (⚠) in the margin throughout this section.

The guidance below focuses on the general requirements for classifying income and expenses into the three newly introduced categories (i.e. the income tax and discontinued operations categories are not specifically discussed in this publication).

2.1.2.1 Operating category

IFRS 18.55(a), 64, B42, B58

The operating category (and therefore operating profit) typically includes income and expenses from an entity's main business activities. Exceptions include income and expenses from:

- equity-accounted investments, which are always classified in the investing category, even if they arise from the entity's main business activities (see 2.1.3.1); and
- issued investment contracts with participation features under IFRS 9 *Financial Instruments* (e.g. an investment contract with participation features issued by an insurer that does not meet the definition in IFRS 17 *Insurance Contracts* of an investment contract with discretionary participation features, and an investment contract with participation features issued by an investment entity) and insurance finance income and expenses recognised in profit or loss under IFRS 17. These are always classified in the operating category, even if they do not arise from the entity's main business activities (see 2.1.2.3).

IFRS 18.B42, BC89(b)

IFRS 18 also defines the operating category indirectly as a 'default' or 'residual' category. This means that an entity classifies income and expenses in the operating category unless, under specific requirements of the standard, they are classified in another category. Furthermore, an entity does not exclude from the operating category income and expenses that are volatile, unusual or non-recurring.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The operating category typically captures the following.

	Type of income and expenses	Example income and expenses
IFRS 18.B48-B49	Income and expenses from 'operating assets'[3]	• Revenue from the sale of goods or services • Depreciation, impairment and impairment reversals of property, plant and equipment • Amortisation, impairment and impairment reversals of intangibles • Gains and losses on the disposal of property, plant and equipment or intangibles • A bargain purchase gain from a business combination that includes assets giving rise to income and expenses that will be classified in the operating category
IFRS 18.B54-B55	Income and expenses from 'other liabilities'[4], other than interest income and expenses and the effect of changes in interest rates[5]	• Expenses recognised for the consumption of purchased goods or services (e.g. the cost of repairs expensed and recorded as a trade payable) • Current and past service cost from a defined benefit plan • Remeasurements of contingent consideration in a business combination
IFRS 18.B48, 58, 65(a)(i)	Additional income and expenses recognised by entities with *specified main business activities* (see 2.1.3)	Examples related to investing in assets: • rental income from investment property • fair value gains and losses of investment property • dividends on financial assets Examples related to providing financing to customers: • interest income from loans to customers • interest expenses from borrowings[6]

Will there be significant changes to current practice as to which income and expenses entities classify in the operating category?

IFRS 18.BC89

It depends.

Under IAS 1, entities use different formats to present their results. For example, some entities report an operating profit subtotal; others do not. As the term 'operating activities' is undefined in IAS 1, how operating profit is determined also differs between entities.

IFRS 18 not only requires all entities to present an operating profit subtotal but also indirectly defines which income and expenses are included in this subtotal. As such, some entities may see significant changes to how they report their operating results, depending on their current practice.

3. 'Operating assets' refer to assets that do *not* generate a return individually and largely independently of an entity's other resources.
4. 'Other liabilities' refer to liabilities that arise from transactions that do *not* involve only the raising of finance.
5. Interest income and expenses and the effect of changes in interest rates from 'other liabilities' are classified in the financing category (see 2.1.2.3).
6. Income and expenses from borrowings that relate to providing financing to customers are classified in the operating category. However, income and expenses from borrowings that do not relate to providing financing to customers may be classified either in the operating or financing category as an accounting policy choice (see 2.1.3.2).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.1.2.2 Investing category

IFRS 18.53, B43-B46

IFRS 18 requires that entities classify specific income and expenses from the following 'non-operating assets' in the investing category.

- Investment in associates, joint ventures and unconsolidated subsidiaries.
- Cash and cash equivalents.
- Other 'non-operating assets' (e.g. debt or equity investments and investment properties and rent receivables from those properties).

IFRS 18.54, B47

The following specific income and expenses from the above assets are classified in the investing category.

Specific income and expenses	Examples
Income generated by the assets Income and expenses from the initial and subsequent measurement of the assets The incremental expenses directly attributable to the acquisition and disposal of the assets	• Interest • Dividends • Rental income • Depreciation • Impairment losses and reversals • Fair value gains and losses • Transaction costs and costs to sell the assets • The income and expenses from derecognition of the asset, or its classification and remeasurement as held-for-sale (see 2.1.5)

IFRS 18.55-58

Entities with specified main business activities will instead classify some of the above income and expenses in the operating category (see 2.1.3). For example:

- **Interest income from loans to customers**: An entity that provides financing to customers as a main business activity classifies this income in the operating category (see 2.1.3.2).
- **Income and expenses from cash and cash equivalents**: An entity that invests in financial assets as a main business activity classifies these income and expenses in the operating category (see 2.1.3.1). An entity that provides financing to customers (but does not invest in financial assets) as a main business activity classifies in the operating category either all of these income and expenses or only those that relate to providing financing to customers (see 2.1.3.2).

IFRS 18.55(a)

Income and expenses from equity-accounted investments are always classified in the investing category, even if they arise from an entity's specified main business activities.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The following diagram summarises, by type of asset, how income and expenses from assets are classified either in the operating or investing category.

Income and expenses from assets

'Non-operating assets'

Investments in associates, joint ventures and unconsolidated subsidiaries

Equity method

Other than equity method

Other 'non-operating asset' (e.g. financial assets, investment property)

Cash and cash equivalents (C&CE)

'Operating assets' (e.g. PPE, trade receivables)

Does the entity invest in these assets as a main business activity?

Yes

No

Does the entity invest in financial assets* as a main business activity?

Yes

No

Does the entity provide financing to customers as a main business activity?

No

Yes

C&CE unrelated to providing financing to customers

C&CE related to providing financing to customers

Accounting policy choice

Investing category

Operating category

* Other than investments in associates, joint ventures or unconsolidated subsidiaries and cash and cash equivalents.

Is the investing category in the income statement the same as investing activities in the statement of cash flows?

IFRS 18.BC86-BC87

No. The terms 'investing category' in IFRS 18 and 'investing activities' in IAS 7 have different definitions and as such, there is no symmetry for classifying items in the income statement and the statement of cash flows.

For example, cash proceeds on the sale of property, plant and equipment are classified as investing activities in the statement of cash flows; however, the gain or loss is classified in the operating category in the income statement. This is because property, plant and equipment is used in combination with an entity's other resources in its main business activities. It does not generate a return individually and largely independently of the entity's other resources.

Because similar terminology is used for categories of income and expenses in the income statement and for activities in the statement of cash flows, the differences between these terms (i.e. operating, investing and financing) may not be immediately clear to users.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

If an entity does not invest in property as a main business activity, does it classify salaries to employees that manage that property ('non-operating asset') in the investing category?

IFRS 18.54, BC106-BC109

No, because they are neither expenses that arise on the initial and subsequent measurement of the property nor incremental expenses that are directly attributable to the acquisition and disposal of the property.

Even though they relate to a 'non-operating asset', these expenses are excluded from the investing category and are included instead in the operating category (by default). Another example of such expenses may be ongoing investment management fees paid to a third party.

2.1.2.3 Financing category

IFRS 18.59

IFRS 18 requires that entities classify specific income and expenses from the following liabilities in the financing category.

Specific income and expenses	Examples
IFRS 18.60, B50-52 From 'financing liabilities'[7] • Income and expenses from initial and subsequent measurement • Incremental expenses directly attributable to the issue and extinguishment of liabilities (e.g. transaction costs)	• Interest expenses on debt instruments issued – e.g. debentures, loans, bonds or mortgages • Fair value gains and losses on a liability designated at fair value through profit or loss • Dividends on issued shares classified as liabilities
IFRS 18.61, B53-B54 From 'other liabilities'[8] • Interest income and expenses that are required to be identified by other IFRS accounting standards • Effects of changes in interest rates that are required to be identified by other IFRS Accounting Standards	• Interest expenses on trade payables • Interest expenses on a contract liability with a significant financing component • Interest expenses on a lease liability • Net interest expense (income) on a net defined benefit liability (asset) • The increase in the discounted amount of a provision arising from the passage of time • The effect of any change in the discount rate on provisions

IFRS 18.65-66

Entities that provide financing to customers as a main business activity will instead classify some of the above income and expenses in the operating category (see 2.1.3.2) – e.g. interest expenses from borrowings that relate to providing financing to customers.

7. 'Financing liabilities' refer to liabilities that arise from transactions that involve only the raising of finance.
8. 'Other liabilities' refer to liabilities that arise from transactions that do *not* involve only the raising of finance.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.64, B58

The financing category specifically excludes the following items of income and expenses arising from specific types of instruments.

- Income and expenses from issued investment contracts with participation features recognised under IFRS 9 (e.g. an investment contract with participation features issued by an insurer that does not meet the IFRS 17's definition of an investment contract with discretionary participation features, and an investment contract with participation features issued by an investment entity).
- Insurance finance income and expenses included in the income statement under IFRS 17.

These items are always classified in the operating category, regardless of whether an entity has a specified main business activity.

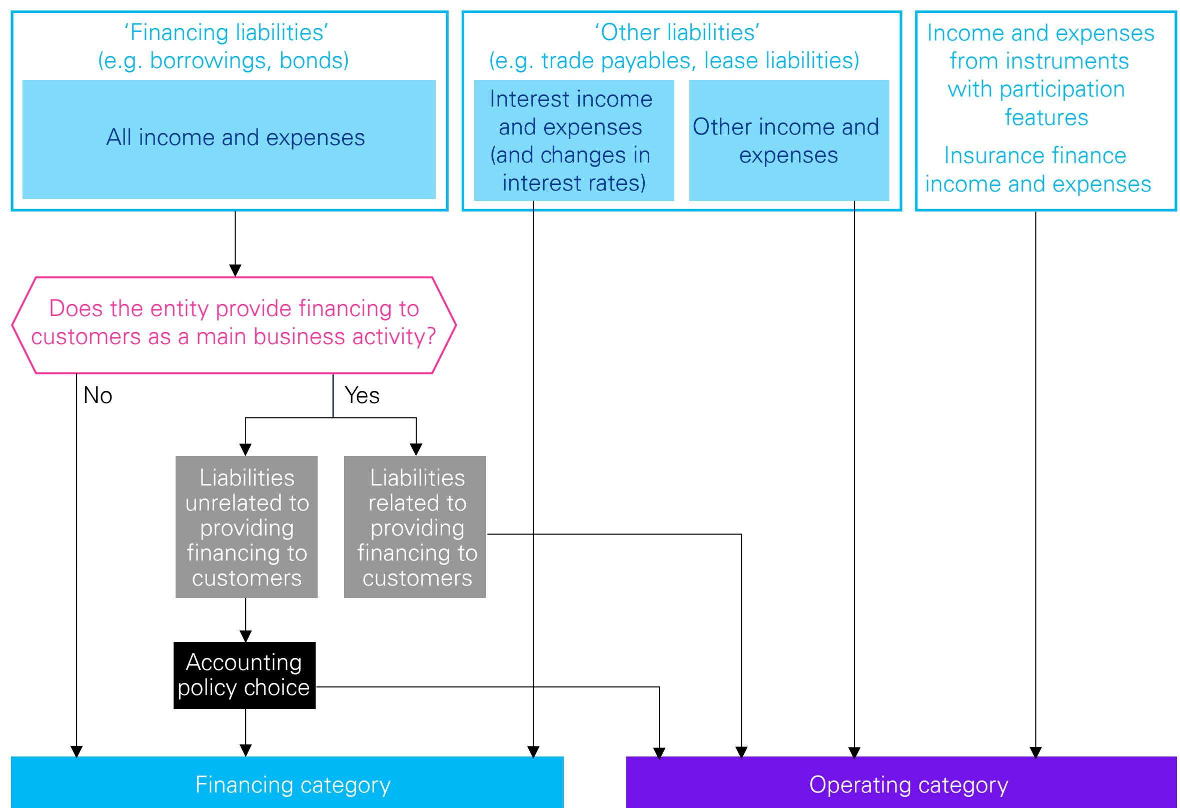
If a non-insurer issues an insurance contract, does it classify insurance finance income and expenses in the operating category?

IFRS 18.BC196-BC197

Yes. The IASB decided to require all entities, regardless of their main business activities, to classify insurance finance income and expenses in the operating category, noting that in most cases an entity that issues insurance contracts will do so as a main business activity and developing separate guidance for other entities would add complexity to the requirements.

The following diagram summarises, by type of liability, how income and expenses from liabilities are classified either in the operating or financing category.

Income and expenses from liabilities



IFRS 18.62

In addition, IFRS 18 provides specific guidance on how the above requirements for classifying income and expenses in the financing category apply to hybrid contracts that contain a liability host. For more detail, see 2.1.4.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

How are finance costs presented under IFRS 18?

IFRS 18.59-66, 75, BC242-BC243

IFRS 18 removes the requirement for an entity to present finance costs as a separate line item in the income statement. However, an entity applies judgement to determine the line items it presents in the financing category to provide a useful structured summary of income and expenses (see Chapter 4). If expenses classified in the financing category are presented as a single line item (e.g. interest expenses on borrowings and lease liabilities), then an entity is required to disclose disaggregated information about those expenses in the notes, if the resulting information is material.

Under IAS 1, finance costs are not defined, and entities typically develop an accounting policy for what they include in the required finance cost line item. For example, many entities currently include foreign exchange gains and losses, gains and losses on derivatives and gains and losses on derecognition of financial instruments in the finance cost line item. However, under IFRS 18, there are specific classification requirements for many of these types of gains and losses and they might not be classified in the financing category. (See 2.1.5–7).

Why does an entity need to distinguish between 'financing liabilities' and 'other liabilities'?

IFRS 18.B50-B51, B53

This distinction is important because income and expenses from these two types of liabilities are classified either in the operating or financing category under IFRS 18, as illustrated in the diagram above for 'Income and expenses from liabilities'.

Paragraph B50 of IFRS 18 sets out a principle for entities to apply when distinguishing between the two. It explains that in transactions that give rise to 'financing liabilities' (i.e. liabilities that involve only the raising of finance), an entity:

- receives finance in the form of cash, or an extinguishment of a financial liability or receipt of the entity's own equity instruments; and
- at a later date, will return in exchange cash or its own equity instruments.

Examples of how this principle is applied are as follows.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Transaction type	Involves only the raising of finance?
Debt instrument that will be settled in cash	Yes – because the entity receives cash and, at a later date, will return cash.
Liability arising under a supplier finance arrangement when the payable for goods or services is derecognised	Yes – because the entity is discharged of a financial liability and will return cash in settlement.
Bond that will be settled through delivery of a variable number of the entity's own shares	Yes – because the entity receives cash and will return its own equity instruments in settlement of the bond.
Obligation for an entity to purchase its own equity instruments	Yes – because the entity receives its own equity instruments and will return cash in exchange.
• A payable for goods and services that will be settled in cash • Lease liabilities • Defined benefit pension liabilities • Decommissioning or asset restoration provisions and litigation provisions	No – because the entity does not receive finance in the form described in paragraph B50 of IFRS 18.
Contract liabilities	No – because the entity will provide goods or services in settlement. It does not return cash or its own equity instruments.

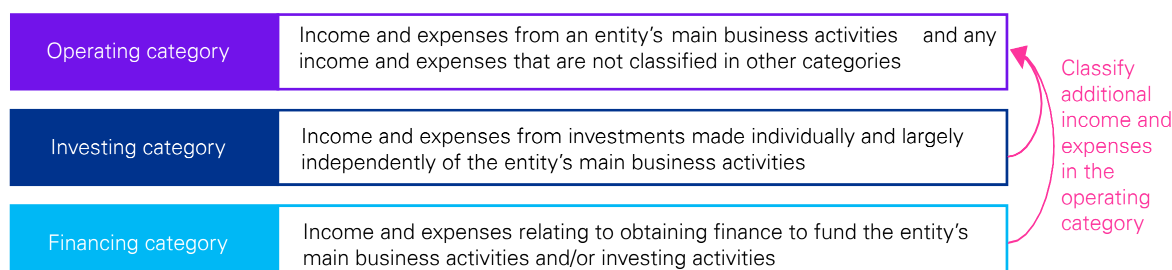
2.1.3 Additional specific requirements for entities with specified main business activities

IFRS 18.49

If an entity assesses that it has either or both of the following specified main business activities, then it classifies additional income and expenses in the operating category that it would otherwise classify in the investing or financing category.

- Investing in assets (2.1.3.1).
- Providing financing to customers (2.1.3.2).

Entities with specified main business activities



The following table illustrates how the classification of income and expenses might change depending on whether an entity has specified main business activities.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

	Manufacturer A	Manufacturer B	Retail bank	Retail and investment bank	Insurer	Investment property company	Investment entity
Main business activities	Manufacturing and sales of goods	Manufacturing and sales of goods and providing financing to customers (2.1.3.2)	Providing financing to customers (2.1.3.2)	Providing financing to customers (2.1.3.2) and investing in financial assets (2.1.3.1)	Investing in financial assets (2.1.3.1)	Investing in non-financial assets (2.1.3.1)	Investing in subsidiaries, associates and joint ventures (2.1.3.1)
Interest income on cash and cash equivalents	Investing	Operating*[1]	Operating*[1]*[3]	Operating*[3]	Operating	Investing	Investing
Interest income on loans to customers	Investing	Operating	Operating	Operating	Investing	Investing	Investing
Fair value gains/losses on investments in debt or equity instruments	Investing	Investing	Investing*[3]	Operating*[3]	Operating	Investing	Investing
Gains/losses on investment property	Investing	Investing	Investing	Investing	Investing*[4]	Operating	Investing
Share of profit or loss of equity-accounted investees	Investing	Investing	Investing	Investing	Investing	Investing	N/A
Gains/losses on investments in subsidiaries/associates/joint ventures measured at fair value	Investing	Investing	Investing	Investing*[5]	Investing*[4]	Investing	Operating
Interest expense on borrowings	Financing	Operating*[2]	Operating*[2]	Operating*[2]	Financing	Financing	Financing
Interest expense on defined benefit liability	Financing	Financing	Financing	Financing	Financing	Financing	Financing

*[1] Entities that provide financing to customers (but do not invest in financial assets) as a main business activity can choose to classify income and expenses from cash equivalents that do not relate to providing financing to customers in the investing category instead of in the operating category.

*[2] Entities that provide financing to customers as a main business activity can choose to classify income and expenses from borrowings that do not relate to providing financing to customers in the financing category instead of in the operating category.

*[3] Some banks may also invest in financial assets as a main business activity. In these cases, fair value gains/losses on investments in debt or equity instruments are classified in the operating category. In addition, all interest income on cash and cash equivalents is classified in the operating category – i.e. the accounting policy choice described in footnote *1 is not available (see 8.1.1.2). Each bank will need to determine whether investing in financial assets is a main business activity based on its specific facts and circumstances.

*[4] Insurers may invest not only in financial assets but also in associates, joint ventures or unconsolidated subsidiaries and investment property as underlying assets to support issued insurance contracts. If they invest in these assets as a main business activity, then the income and expenses from those underlying assets are classified in the operating category, unless they are equity-accounted investees (see 8.2.1.1.1–2).

*[5] Some banks may invest not only in financial assets but also in associates, joint ventures or unconsolidated subsidiaries as a main business activity. If this is the case, then the income and expenses from these investments are classified in the operating category, unless they are equity-accounted investees.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.1.3.1 Investing in assets as a main business activity

IFRS 18.55-58, B31

Entities that invest in the following 'non-operating assets' as a main business activity classify additional income and expenses in the operating category rather than the investing category.

- Investment in associates, joint ventures and unconsolidated subsidiaries that are *not* accounted for under the equity method. A typical example of entities that invest in this type of asset as a main business activity is investment entities as defined in IFRS 10.
- Other 'non-operating assets' (excluding cash and cash equivalents) – e.g. debt or equity investments, investment properties and rent receivables from those properties. Typical examples of entities that invest in this type of asset as a main business activity are investment property companies (non-financial assets) and insurers (financial assets).

Investing in associates, joint ventures or unconsolidated subsidiaries not accounted for under the equity method

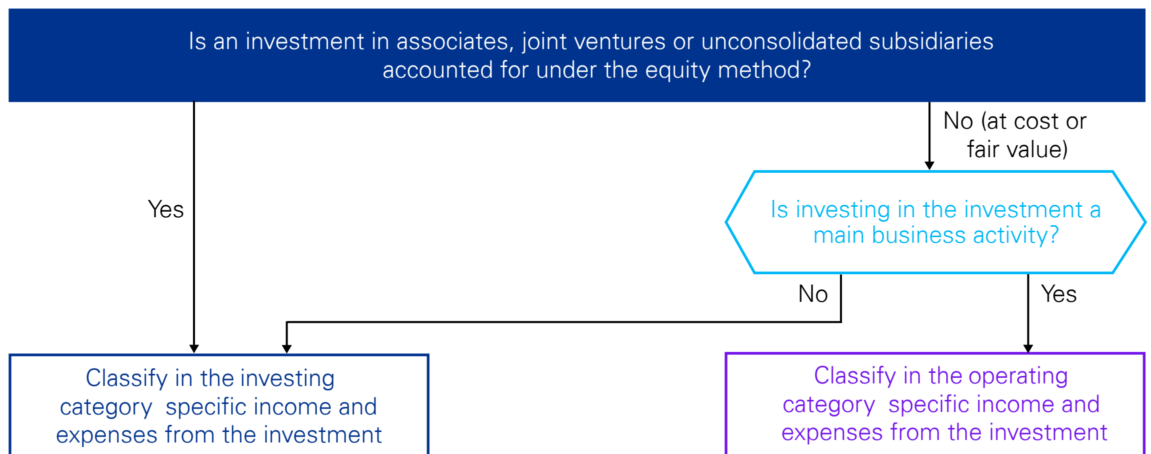
IFRS 18.55(b)

Entities that invest in associates, joint ventures or unconsolidated subsidiaries as a main business activity classify income and expenses from these investments in the operating category only if the investments are not equity-accounted.

IFRS 18.55(a)

If the investments are equity-accounted, then income and expenses from the investments are classified in the investing category, regardless of whether investing in these investments is one of its main business activities.

Entities that invest in associates, joint ventures or unconsolidated subsidiaries



© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Are income and expenses from equity-accounted investments always classified in the investing category without exception?

IFRS 18.C7, BC110-BC129, BC423

Yes. IFRS 18 does not allow income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries to be classified in the operating category, if those investments are accounted for under the equity method. This applies even if investing in these investments is an entity's main business activity.

However, an entity can choose to present income and expenses from equity-accounted investees as the first line item in the investing category – i.e. the line item immediately after the operating profit subtotal – and may also present an additional subtotal for operating profit and income and expenses from equity-accounted investees.

Further, IFRS 18 provides eligible entities (as specified in paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures*) with the option to change their election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss when they first apply IFRS 18 (see Section 7.2).

Investing in other 'non-operating assets'

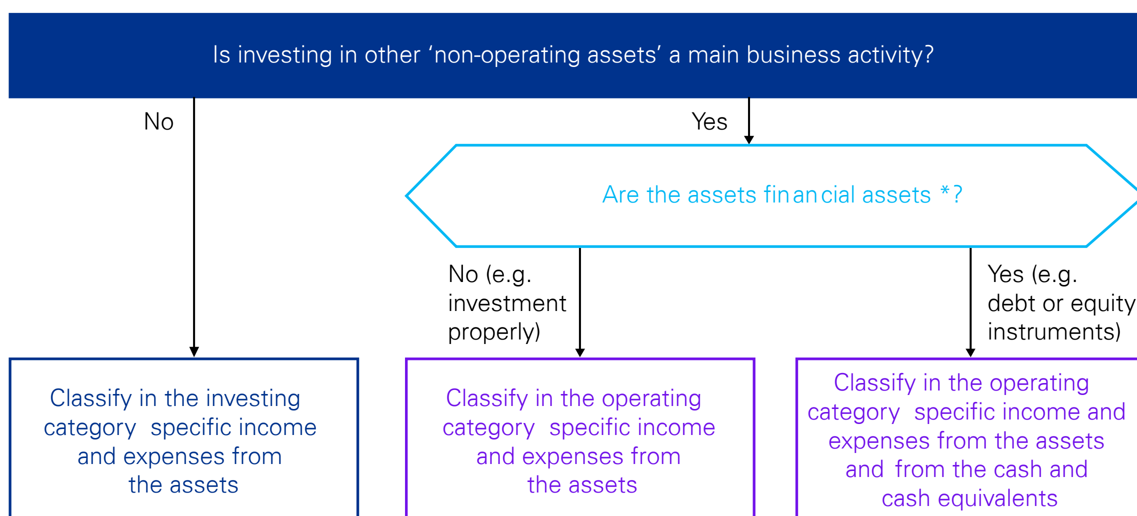
IFRS 18.58, B31

An entity might invest in other 'non-operating assets' – e.g. investment property companies (non-financial assets) and insurers (financial assets). These entities classify income and expenses from those assets in the operating category rather than the investing category.

IFRS 18.56(a)

If these assets are financial assets, then an entity also classifies income and expenses from cash and cash equivalents in the operating category rather than the investing category, as illustrated below.

Entities that invest in other 'non-operating assets' as a main business activity



* Other than investments in associates, joint ventures or unconsolidated subsidiaries and cash and cash equivalents.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.1.3.2 Providing financing to customers as a main business activity

IFRS 18.56(b)(i), 65(a)(i)

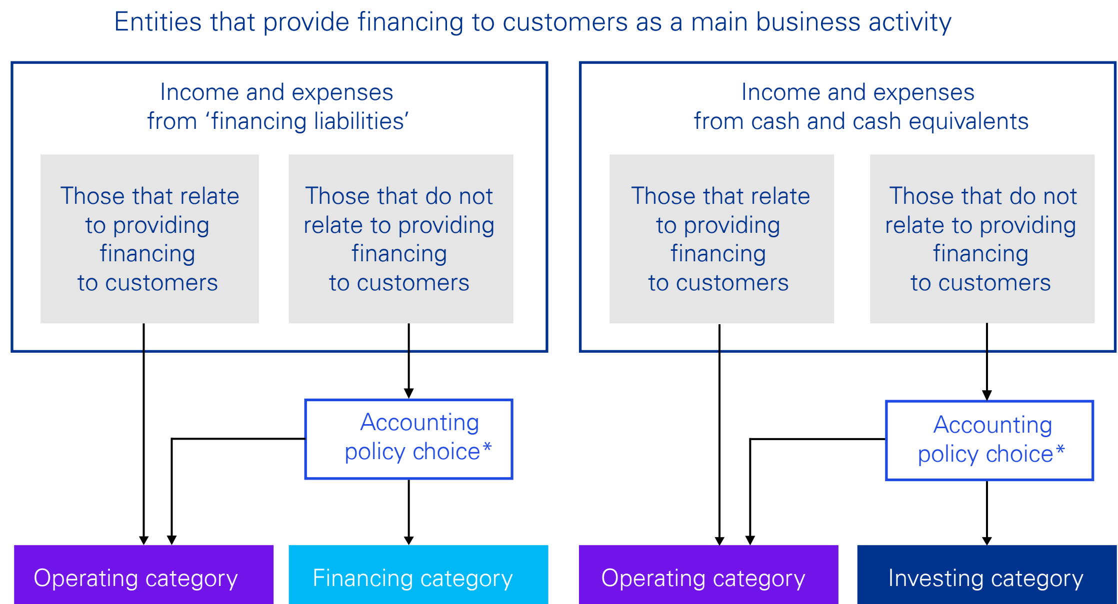
Entities that provide financing to customers as a main business activity classify additional income and expenses in the operating category, rather than the financing category. These are income and expenses from:

- 'financing liabilities' relating to providing financing to customers; and
- cash and cash equivalents relating to providing financing to customers.

IFRS 18.56(b), 57, 65(a), 66

When classifying income and expenses that arise from 'financing liabilities' and cash and cash equivalents that do not relate to providing financing to customers, entities have an accounting policy choice, as illustrated in the diagram below.

Entities that provide financing to customers as a main business activity



* The accounting policy for 'financing liabilities' needs to be consistent with that for cash and cash equivalents. If an entity cannot distinguish those 'financing liabilities' that relate to providing financing to customers from those that do not, then it classifies income and expenses from all 'financing liabilities' in the operating category. The same applies to cash and cash equivalents.

IFRS 18.B48(c), B49(b)

Entities that provide financing to customers as a main business activity classify interest income from loans to customers in the operating category rather than the investing category.

IFRS 18.B32

Examples of entities that might provide financing to customers as a main business activity include:

- banks and other lending institutions;
- entities that provide financing to customers so that customers can buy the entity's products (e.g. car manufacturer that provides financing to its customers); and
- finance lessors.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

For entities that provide financing to customers as a main business activity, is it important to distinguish cash and cash equivalents and 'financing liabilities' that relate to providing financing to customers from those that do not relate to providing financing to customers?

IFRS 18.56(b), 65(a), BC181–184

Yes, but only for entities that wish to classify income and expenses from cash and cash equivalents and 'financing liabilities' that do not relate to providing financing to customers outside the operating category.

The IASB noted that for some entities it may be difficult to make the distinction. Therefore, it decided to provide an accounting policy choice to classify these income and expenses in the operating category. For example, an entity with a central treasury function that raises funding for all of the entity's activities might be unable to identify income and expenses from liabilities that relate to providing financing to customers in a non-arbitrary way. These entities are not required to make the distinction but can instead classify income and expenses from all cash and cash equivalents and 'financing liabilities' in the operating category.

An entity has main business activities of both providing financing to customers and investing in financial assets.[9] Can it choose whether to classify in the investing category income and expenses from cash and cash equivalents that do not relate to providing financing to customers?

IFRS 18.56, BC138

No. The accounting policy choice is not available if an entity also invests in financial assets as a main business activity. These entities (e.g. an entity that is a retail and investment bank) are required to classify income and expenses from all cash and cash equivalents in the operating category.

An entity provides financing to customers as a main business activity. Can it classify in the operating category interest income and expenses from 'other liabilities' too?

IFRS 18.65(b)(i), B32(c), BC187-BC188, BC198-BC199

No. Interest income and expenses from 'other liabilities' (e.g. lease liabilities) are always classified in the financing category (see 2.1.2.3). This applies even if these liabilities are part of an entity's main business activity. For example, even if an intermediate lessor provides financing to customers as a main business activity, it classifies interest expenses on head-leases in the financing category. This may give rise to a mismatch in presentation because intermediate lessors classify interest income from finance sub-leases in the operating category (see 2.1.3.2).

9. Other than investments in associates, joint ventures or unconsolidated subsidiaries, and cash and cash equivalents.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Other requirements

As set out in Section 2.1, all entities need to apply the 'other requirements' in IFRS 18 – i.e. those that apply for certain items of income and expense. These requirements apply for:

- income and expenses from hybrid contracts (2.1.4);
- income and expenses from derecognition and changes in classification (2.1.5);
- foreign exchange differences (2.1.6); and
- gains and losses on derivatives and hedging instruments (2.1.7).

2.1.4 Classifying income and expenses arising from hybrid contracts

IFRS 18.52, 62, B56-B57, B59

IFRS 18 provides specific guidance on how entities classify income and expenses from hybrid contracts containing a host that is a liability. A hybrid contract is a contract that includes an embedded derivative and a non-derivative host contract.

- **Embedded derivative is separated from a liability host**: income and expenses arising from the host are classified applying the guidance on income and expense from liabilities (see 2.1.2 and 2.1.3). Those arising from the separated embedded derivative are classified applying the guidance on income and expenses from standalone derivatives (see 2.1.7).
- **Embedded derivative is *not* separated from a liability host**: income and expenses arising from the whole contract are classified applying the guidance on income and expenses from liabilities (see 2.1.2 and 2.1.3), except for when the hybrid contract does not arise from a transaction that involves only the raising of finance and:
  - the host is a financial liability measured at amortised cost under IFRS 9.[10] In this case, the income and expenses from the whole instrument are classified in the financing category[11];
  - the hybrid contract is an insurance contract in the scope of IFRS 17. In this case, the income and expenses from the contract, are classified in the operating category (see 2.1.2.3).

The following diagram illustrates these requirements.

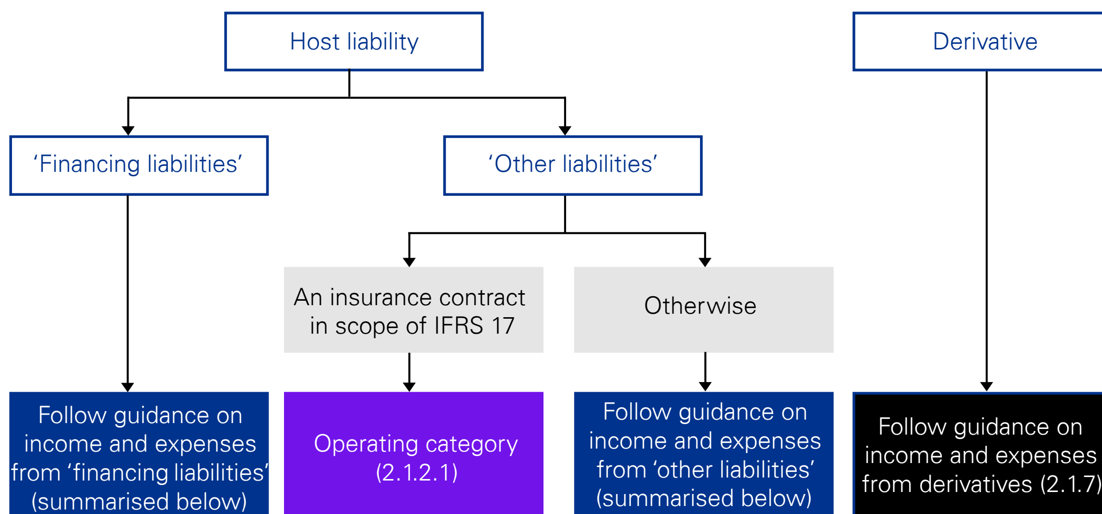
10. Except for issued investment contracts with participation features in the scope of IFRS 9. Income and expenses arising from these contracts are classified in the operating category.

11. These income and expenses are not eligible to be classified in the operating category by entities that provide financing to customers as a main business activity.

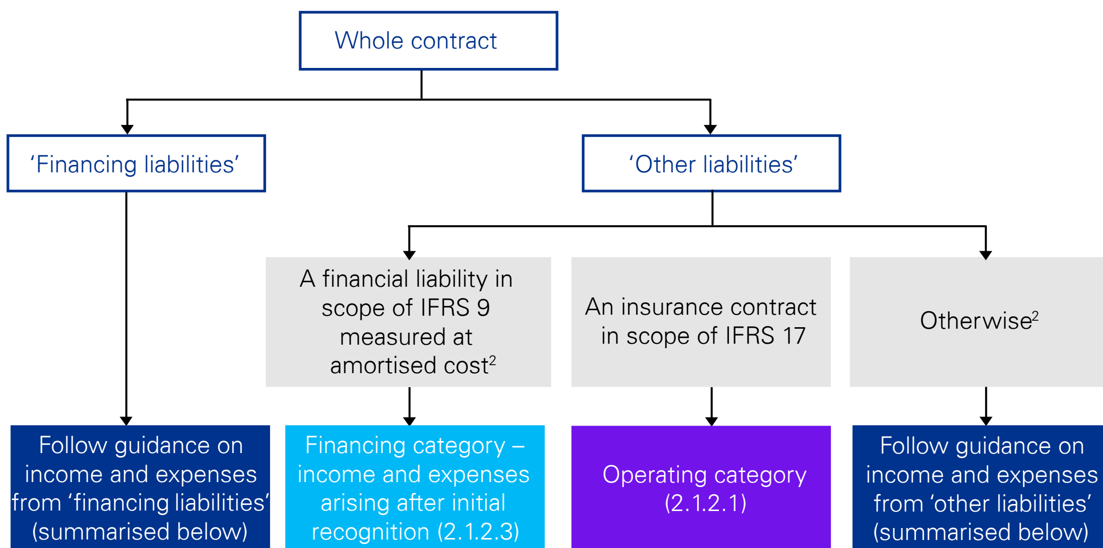
© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Income and expenses from hybrid contracts

Embedded derivative is separated from the host



Embedded derivative is NOT separated from the host[1]



Notes:

[1] Under paragraph B57 of IFRS 18, this applies regardless of the reason why the entity does not separate the embedded derivative under IFRS 9.

[2] Income and expenses from a financial liability in scope of IFRS 9 that is measured at FVTPL in its entirety are generally classified in the operating category.

Summary of guidance on income and expenses from liabilities

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Providing financing to customers is</th></tr>
<tr><th>Not a main business activity</th><th>A main business activity</th></tr>
<tr><td rowspan="2">Income and expenses from 'financing liabilities'</td><td>Relating to providing financing to customers</td><td rowspan="2">Financing category (2.1.2.3)</td><td>Operating category (2.1.3.2)</td></tr>
<tr><td>Not relating to providing financing to customers</td><td>Operating or financing category depending on accounting policy choice (2.1.3.2)</td></tr>
<tr><td rowspan="2">Income and expenses from 'other liabilities'</td><td>Interest income and expenses and effect of changes in interest rates</td><td colspan="2">Financing category (2.1.2.3)</td></tr>
<tr><td>Other income and expenses</td><td colspan="2">Operating category (2.1.2.1)</td></tr>
</table>

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Example 3 – Classification of income and expenses from hybrid contracts

IFRS 18.B73(a)

Scenario A – Embedded derivative is separated from the host (convertible bonds)

Entity W issues a convertible bond. The embedded conversion option does not meet the fixed-for-fixed condition to be classified as equity. Therefore, the convertible bond in its entirety is classified as a financial liability (i.e. a hybrid contract). W separates the embedded conversion option, accounts for it as a derivative and measures the host liability at amortised cost in accordance with IFRS 9. The entity's main business activities do not include providing financing to customers.

W classifies income and expenses from the convertible bond as follows.

- Income and expenses from the host liability: Classified in the financing category because they arise from a transaction that involves only the raising of finance.
- Income and expenses from the embedded conversion option: Classified in the financing category based on the guidance on income and expenses from derivatives (see 2.1.7).

Scenario B – Embedded derivative is not separated from the host (payables for goods or services)

Entity Y has a trade payable that it can prepay. The prepayment option is considered closely related to the host and is not separated. Y measures the whole contract at amortised cost in accordance with IFRS 9.

Y classifies income and expenses from the whole contract in the financing category even though the whole contract (i.e. trade payable with a prepayment option) does not arise from a transaction that involves only the raising of finance. Y does this because the liability is measured at amortised cost under IFRS 9. Those income and expenses classified in the financing category are limited to those arising subsequent to initial recognition of the trade payable.

2.1.5 Income and expenses from derecognition and changes in classification

2.1.5.1 Application to an asset or a liability

IFRS 18.B60-B61

A key principle in IFRS 18 is that income and expenses from the derecognition of an asset or a liability are classified in the same category as income and expenses from that asset or liability immediately before its derecognition. The following are examples of applying this principle.

Income and expenses from	Classifying in the following category
Derecognition of property, plant and equipment	Operating
Derecognition of investment property not invested in as a main business activity	Investing
Remeasurement of an investment in an associate previously equity-accounted becoming a subsidiary in a step acquisition	Investing
Derecognition of 'financing liabilities' by entities that do not provide financing to customers as a main business activity	Financing
Derecognition of trade payables as a result of entering into a supplier finance arrangement	Operating

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.B60, B62

The same principle applies when an asset:

- is classified as held-for-sale;
- is subsequently remeasured while held for sale; and
- changes its use without the asset being derecognised. For example, income and expenses on a transfer of property from the scope of IAS 16 *Property, Plant and Equipment* to investment property in the scope of IAS 40 *Investment Property*, are classified in the operating category.

Entities are required to cease equity accounting when an equity-accounted investee is classified as held-for-sale under IFRS 5[12]. Can gains and losses recognised while held for sale or on ultimate disposal be classified in the operating category?

IFRS 18.B60

It is not entirely clear. IFRS 18 requires an entity to classify income and expenses on the derecognition of an asset in the same category as it classified the income and expenses from the asset immediately before its derecognition. This also applies to income and expenses recognised on the classification of an asset as held-for-sale and any subsequent measurement while held for sale under IFRS 5. Arguably, income and expenses that arise while the investee (e.g. an associate) is classified as held-for-sale (e.g. dividend income and impairment losses) continue to be classified in the investing category. In addition, income and expenses that arise on the investee's derecognition are also classified in the investing category.

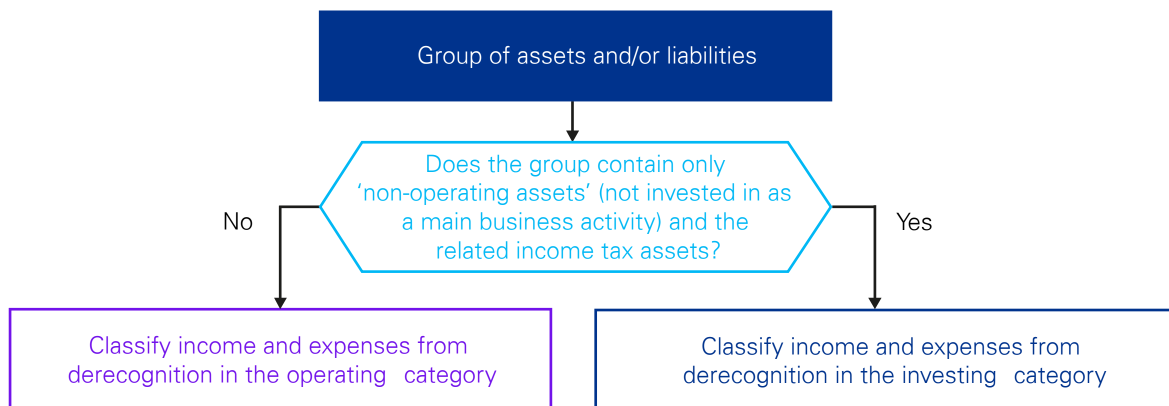
2.1.5.2 Application to a group of assets and liabilities

IFRS 18.B63-B64

A group of assets and liabilities may have generated income and expenses that were classified in different categories immediately before a transaction or other event (e.g. derecognition, classification as held-for-sale, subsequent measurement while held for sale or a change in use).

In this case, income and expenses from the transaction or other event are classified in the operating category, unless *all* of the assets in the group (other than any income tax assets) generated income and expenses that were classified in the investing category immediately before the transaction or other event.

Classifying income and expenses from derecognition* of a group of assets and liabilities



* Also from classification as held for sale, subsequent measurement while held for sale or change in use.

12. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.B64, BC204-BC206

For example, if an entity sells a consolidated subsidiary that does not meet the criteria in IFRS 5 to be classified as a discontinued operation before its disposal, then the gain or loss on disposal might relate to more than one category. In this case, if the only assets of the subsidiary comprised investment property (not invested in by the group as a main business activity) and its related income tax assets, then the gains and losses on the disposal of the subsidiary are classified in the investing category. Conversely, if the subsidiary included assets that generated income and expenses that the entity classified in the operating category immediately before the disposal, then these gains and losses are classified in the operating category.

2.1.6 Foreign exchange differences

IFRS 18.B65, B66

Under IFRS 18, foreign exchange differences recognised in the income statement are classified in the same category as the income and expenses from the items that gave rise to them. For example, an entity classifies foreign exchange differences arising from:

- a trade receivable denominated in a foreign currency in the operating category; and
- a debt instrument recognised as a liability and denominated in a foreign currency in the financing category, unless it provides financing to customers as a main business activity. For an entity that provides financing to customers as a main business activity, depending on the accounting policy chosen, either income and expenses from all debt instruments (and related foreign exchange differences) or income and expenses from only those related to providing financing to customers (and related foreign exchange differences) are classified in the operating category (see 2.1.3.2).

IFRS 18.B68

However, if classifying foreign exchange differences in the same category as the income and expenses from the items that gave rise to them would involve undue cost or effort, then an entity classifies the affected foreign exchange differences in the operating category.

IFRS 18.B67

'Other liabilities' (e.g. trade payables with extended credit terms) may give rise to income and expenses that are classified in different categories – i.e. interest income and expenses (and the effects of changes in interest rate) in the financing category (see 2.1.2.3) and other income and expenses in the operating category (see 2.1.2.1). In this case, an entity needs to apply judgement to determine whether to classify foreign exchange differences from 'other liabilities' either in the financing category or in the operating category – i.e. IFRS 18 does not permit entities to allocate foreign exchange differences arising from a single liability between two categories.

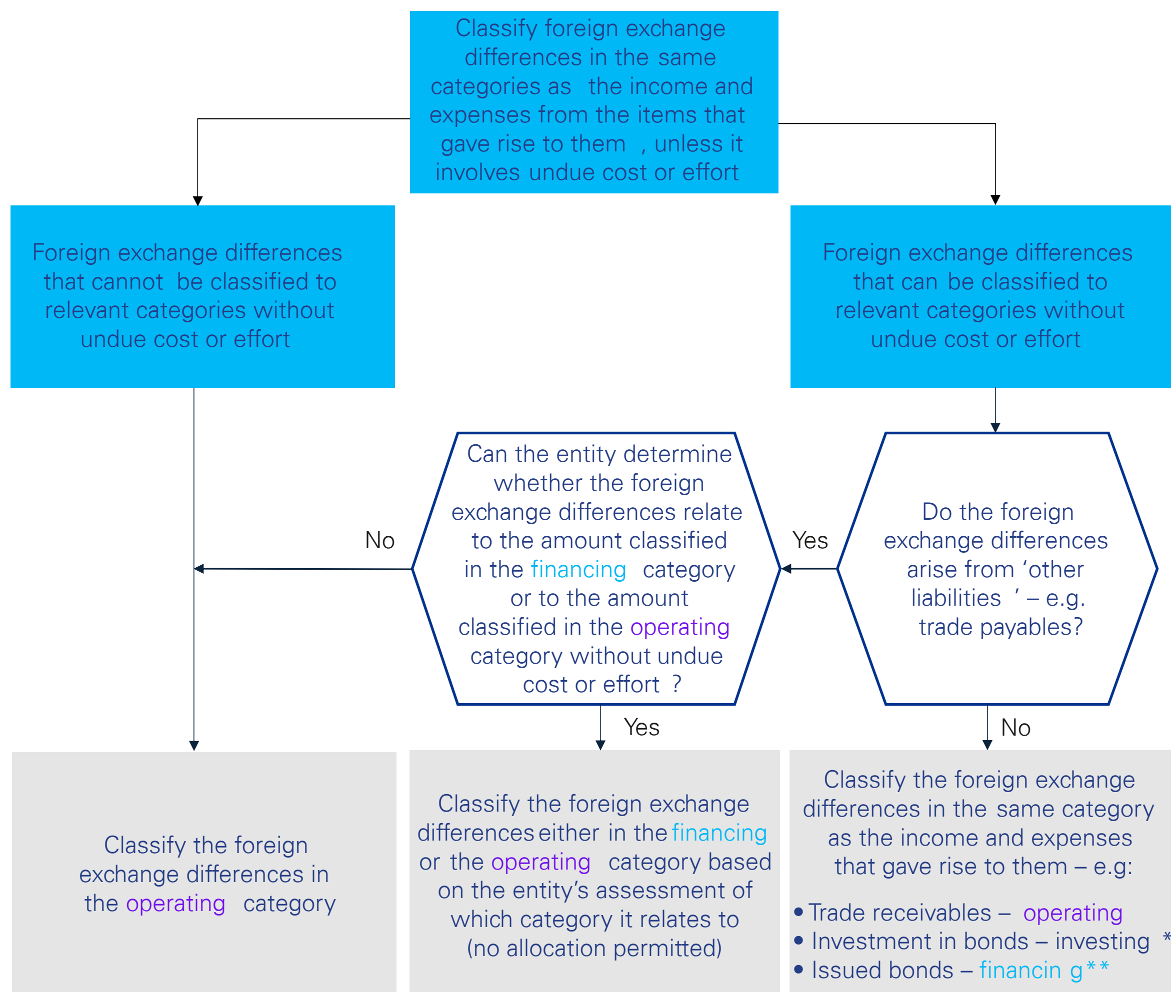
IFRS 18.B68

However, if this assessment would involve undue cost or effort, then an entity classifies foreign exchange differences from 'other liabilities' in the operating category.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.B65-B68

The following diagram illustrates the above requirements.



* Unless the entity invests in these assets as a main business activity.
** Unless the entity provides financing to customers as a main business activity.

Is 'undue cost or effort' the same threshold as 'impracticable' under IAS 8?

IFRS 18.B65, B68, IAS 8.5

No. Under IAS 8, applying a requirement to make retrospective adjustments for accounting policy changes or error corrections is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Impracticability is a higher hurdle than undue cost or effort. However, the undue cost or effort relief is not a 'free-pass' for entities to classify foreign exchange differences in the operating category. For example, they will need to assess whether it involves undue cost or effort to determine whether the foreign exchange differences relate to the amount classified in the financing category or in the operating category. However, entities do not need to make an excessive effort to perform this assessment.

IFRS 9 and IFRS 17 already use the notion of undue cost or effort. For example, both standards require entities to use reasonable and supportable information that is available without undue cost or effort. Determining what involves undue cost or effort requires consideration of the relevant facts and circumstances specific to the entity and to the item under consideration.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Do entities have a choice on where to present foreign exchange differences?

No. Under IFRS 18, foreign exchange differences are presented in the same category as the income or expense from the items that gave rise to them. They are presented as income or expenses from financing activities only in specific circumstances.

How do entities classify foreign exchange differences on inter-company balances?

In some cases, inter-company balances and related income are eliminated in the consolidated financial statements but foreign exchange differences remain. In this case, questions have arisen on how to classify those differences, because there is no related income and expenses in the consolidated financial statements. IFRS 18 does not provide guidance on this and it remains a judgemental area.

2.1.7 Gains and losses on derivatives and hedging instruments

IFRS 18.B70-B76

Entities classify gains and losses on derivatives and non-derivative hedging instruments depending on whether:

- the financial instruments are used to manage identified risks; and
- they are designated as hedging instruments under IFRS 9.

IFRS 18's requirements are summarised in the table below.

IFRS 18.B70, B74-B75

IFRS 18.B72

<table>
<tr><th colspan="2">Purpose and hedging designation</th><th>Gains and losses on derivatives</th><th>Gains and losses on non-derivatives</th></tr>
<tr><td rowspan="2">Used for managing identified risks</td><td>Designated as a hedging instrument</td><td colspan="2">Classify in the same category as income and expenses affected by the hedged risk(s). However, if this involves grossing up gains and losses, then classify in the operating category. Grossing up of gains and losses might occur when a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in multiple categories of the income statement – e.g. a single derivative to manage foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category).</td></tr>
<tr><td>Not designated as a hedging instrument</td><td>Follow the same classification requirements for derivatives designated as a hedging instrument unless doing so involves undue cost or effort (in which case classify in the operating category).</td><td>Apply the requirements discussed in 2.1.2 to 2.1.6.</td></tr>
</table>

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18.B73

Purpose and hedging designation	Gains and losses on derivatives	Gains and losses on non-derivatives
Not used for managing identified risks	Classify in the financing category if the derivative relates to a transaction that involves only the raising of finance (e.g. a purchased option that allows an entity to receive a fixed amount of a foreign currency for delivering a fixed number of the entity's own equity instruments). Classify in the operating category if: • the derivative does not relate to such a financing transaction; or • for an entity that provides financing to customers as a main business activity, the derivative relates to providing financing to customers or the entity has made an accounting policy choice to classify income and expenses from 'financing liabilities' in the operating category (see 2.1.3.2).	

Do presentation requirements differ for derivatives and non-derivatives that are used for risk management?

IFRS 18.BC229

It depends. Classification of gains and losses on derivatives and non-derivatives used for risk management are the same if they are designated as hedging instruments – i.e. they are classified in the category affected by the hedged risk(s).

However, for those that are not designated in a hedging relationship, how an entity classifies gains and losses on financial instruments used for risk management depends on whether they are derivatives.

Entities may hold non-derivative financial instruments for multiple purposes, including risk management. Due to the costs and significant judgement involved in identifying the categories affected by the risks managed, the IASB decided to require that entities apply the general requirements for classifying income and expenses for these instruments when they are not designated as a hedging instrument (see 2.1.2 to 2.1.6).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.2 Analysis of operating expenses

IFRS 18.78

IFRS 18 introduces two major changes from IAS 1 in relation to the analysis of operating expenses. These include the following.

- **Restriction on location**: Entities now need to present an analysis of their operating expenses on the face of the income statement – i.e. the option to only disclose this analysis in the notes is removed.
- **Explicit permission to present the analysis on a mixed basis**: Entities can present operating expenses by nature, by function or a mixture of both on the face of the income statement.

IFRS 18.78, B80

Entities are required to select the method for the analysis of operating expenses (i.e. by nature, by function or mixed) that provides the most useful structured summary of those expenses. IFRS 18 sets out the factors to consider in this assessment (see 2.2.1).

IFRS 18.82(b), 83

If any line items are presented by function on the face of the income statement, then an entity needs to disclose in the notes information about the nature of expenses (see 2.2.2). This is in contrast to when all items are presented by nature on the face of the income statement, in which case no additional disclosure is required.

IFRS 18.82(a), BC256

In addition, IFRS 18 explicitly requires that if any items are presented by function on the face of the income statement, then cost of sales is required to be presented separately from other expenses (if an entity has a cost of sales function). IFRS 18 does not define cost of sales but requires that it include the total of inventory expense required to be disclosed by paragraph 38 of IAS 2 *Inventories*.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.2.1 Selecting the analysis that provides the most useful structured summary

IFRS 18.78

Entities need to assess which method provides the most useful structured summary of operating expenses to financial statement users. See Chapter 4 for more discussion on a useful structured summary.

IFRS 18.B80

The table below illustrates how entities might consider the factors set out in IFRS 18 to determine which method provides the most useful information when analysing operating expenses either by nature, by function or on a mixed basis.

Factors	Examples
Main components or drivers of the entity's profitability	For a retailer, cost of sales may be a main driver of profitability. Using the by-function or the mixed method, which includes presenting cost of sales, may provide relevant information about the direct costs incurred and the resulting profit margin. For a service provider, information about the expenses presented applying the by-nature method – e.g. staff costs – may be more relevant.
The way that the business is managed and how management reports internally	A manufacturer managed on the basis of major functions may find that the by-function method provides more useful information. For an entity that has a single predominant function – e.g. providing financing to customers – the by-nature method may provide the most useful information.
Industry practice	Using similar methods to peers in the same industry may increase comparability.
Allocation of expenses to functions	If the allocation of particular expenses to functions would be arbitrary, then these expenses are classified by nature.

IFRS 18.B81

IFRS 18 provides the following examples of when a mixed presentation may provide the most useful structured summary of operating expenses:

- A by-function presentation would provide the most useful structured summary, but allocating certain expenses to functions would be arbitrary.
- An entity has two different types of main business activities, each of which requires a different presentation method to provide the most useful structured summary of the expenses from each business activity.

IFRS 18.B82

If an entity presents operating expenses on a mixed basis on the face of the income statement, then it describes the resulting line items in a way that clearly identifies which expenses are included in each line item. For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, then its description of the nature line item needs to clearly identify that it does not include all employee benefits – e.g. 'employee benefits other than those included in cost of sales'.

Is the selection of the method for presenting operating expenses a free choice?

IFRS 18.B80

No. IFRS 18 introduces new guidance for entities to determine which method provides the most useful structured summary of operating expenses, which may require judgement.

IFRS 18 does not attribute any weighting to the individual factors, particularly when different factors suggest different methods may be appropriate.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

How is current practice expected to change?

IFRS 18.78

It depends. Under IAS 1, practice varied across different industries and geographies. Presentation of operating expenses may have been influenced by:

- legacy GAAP;
- regulatory requirements; and/or
- industry practice.

For example, some entities may have been prohibited from using a mixed presentation. Others may have presented an analysis of operating expenses only in the notes.

Some entities will welcome the explicit permission for a mixed presentation on the face of the income statement.

2.2.2 Disclosure of nature expenses

IFRS 18.83, B84

If any operating expenses are presented by function on the face of the income statement, then entities are required to provide the following information in a single note for each of the five specific nature expenses (i.e. depreciation of property, plant and equipment, investment property and right-of-use assets; amortisation of intangible assets; employee benefits; impairment losses/reversals; and write down/reversals of inventories).

- The total amount recognised and disclosed under the applicable IFRS accounting standard[13].
- For each total, the amount related to each line item in the operating category. If this amount includes both amounts that were expensed in the period and capitalised to assets, then an entity needs to provide a qualitative explanation, identifying the assets involved.
- For each total, a list of any line items outside the operating category that also include amounts relating to the total – e.g. depreciation of investment property that is not invested in as a main business activity, which is classified in the investing category.

13.

Nature expense	Applicable requirements
Depreciation of: • property, plant and equipment; • investment property; and • right-of-use assets	 Paragraph 73(e)(vii) of IAS 16 Paragraph 79(d)(iv) of IAS 40 Paragraph 53(a) IFRS 16 *Leases*
Amortisation of intangible assets	Paragraph 118(e)(vi) of IAS 38 *Intangible Assets*
Employee benefits	Total amount recognised for employee benefits under IAS 19 *Employee Benefits* Total amount recognised for services received from employees under IFRS 2 *Share-based Payment*
Impairment losses (and reversals)	Paragraphs 126(a) and 126(b) of IAS 36
Write down (and reversals) of inventories	Paragraphs 36(e) and 36(f) of IAS 2

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The following diagram illustrates how the above requirements may apply for one of the five specific nature expenses – i.e. depreciation.

Notes to the income statement

Operating expenses by nature[a]	Depreciation	Amortisation	Employee benefits	Impairment losses/ reversals	Inventory write-downs/ reversals
Total amount recognised in the period (expensed and capitalised)	72[b]				
Total amount related to:					
Cost of goods sold	50				
Administrative expenses	3				
Research and development expenses	15				
Total amount related to operating category	68[b]				

[a] The amounts disclosed in this note are those expensed during the period, except for depreciation, which includes amounts capitalised to inventory.

[b] The difference between these totals relates to depreciation of investment property (not invested in as a main business activity) included in [*line item X*] in the investing category.

IFRS 18.84, 85

As an exemption to the general requirements on disaggregation (see Chapter 4), entities that present any operating expenses by function are only required to provide disaggregated information about the five specific nature expenses. However, this does not exempt an entity from applying specific disclosure requirements relating to those expenses in IFRS Accounting Standards.

In the disclosure on the five specific nature expenses, does the total amount of each nature expense need to be based on the amounts that are recognised as an expense in the period?

IFRS 18.83(b), B84(b), BC269-BC271

Not necessarily.

In developing IFRS 18, the IASB considered feedback from preparers that an entity might need to incur excessive costs to track which costs were recognised as an expense in the current period and which will be in the future. In response to this feedback, the IASB clarified that the amounts disclosed for the five specific nature expenses need not be the amounts recognised as an expense for the period. They could include amounts that have been recognised as part of the carrying amount of an asset.

If entities disclose amounts that include capitalised amounts, then they are required to provide a qualitative explanation of this fact (including identifying the assets involved) to help users of financial statements understand the information disclosed.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Is 'function' defined in IFRS 18?

IFRS 18.82(a), B85, BC253-BC257

No. Similar to IAS 1, under IFRS 18 an entity establishes its own definition of function and then applies this definition consistently. IFRS 18 does not define 'function'; instead, it provides guidance on how entities consider the level of aggregation for operating expenses that provides the most useful structured summary. For example, costs related to administrative activities (e.g. human resources, IT, legal and accounting), selling activities and research and development activities may be sufficiently dissimilar in their characteristics such that they need to be presented in separate line items to provide a useful structured summary of an entity's operating expenses.

If an entity presents any line item by function on the face of the income statement, then IFRS 18 requires a 'cost of sales' line item to be presented (if an entity has a cost of sales function). However, the IASB decided not to define cost of sales, other than to clarify that this line item includes inventory expense recognised under IAS 2.

For more detail on determining an appropriate level of aggregation, see Chapter 4.

How do IFRS 18's requirements for analysing operating expenses differ from the requirements in IAS 1?

The key differences are set out in the table below.

	IAS 1	IFRS 18
Location of analysis of operating expenses	Choice between the face of the income statement and notes to the financial statements	Required on the face of the income statement
Mixed analysis of operating expenses by function and nature on the face of the income statement	Not explicitly prohibited, as long as by-nature information is included in the financial statements – i.e. either on the face of the income statement or in the notes	Explicitly allowed. If any operating expenses are presented by function, then separate presentation of a 'cost of sales' line item is required (if an entity has a cost of sales function)
Basis for determining the appropriate method for classifying operating expenses	Whichever provides information that is reliable and more relevant to users of the financial statements	Whichever provides the most useful structured summary
Disclosures required in the notes for entities using the by-function or mixed method on the face of the income statement	Additional information on the nature of expenses, including depreciation, amortisation and employee benefits	Disclose in a single note specific qualitative and quantitative information for each of the five specific nature expenses

2.2.3 Change in the presentation method of operating expenses

IFRS 18.30, B83

A change in the classification and presentation of expenses in the income statement is a change in accounting policy. For example, if an entity presents impairment of goodwill as a nature line item in one reporting period, then it also needs to present it consistently as a nature line item in subsequent reporting periods, unless the entity changes its accounting policy.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.3 Income and expenses totals and subtotals

IFRS 18 introduces:

- two new required profit subtotals in the income statement, as outlined in Section 2.1;
- enhanced guidance on presenting additional subtotals in the income statement;
- subtotals that are often presented in the income statement and listed in paragraph 118 of IFRS 18 (referred to in this publication as common income and expenses subtotals listed in IFRS 18); and
- MPMs that are a subtotal of income and expenses; MPMs are discussed in more detail in Chapter 3.

2.3.1 Required income and expenses totals and subtotals

Under IFRS 18, entities present two new required subtotals: three other totals/subtotals are carried forward from IAS 1.

IFRS 18.69-72, 86

Required totals and subtotals	Is this new?
Operating profit or loss	Yes – newly introduced by IFRS 18 (see Section 2.1)
Profit or loss before financing and income taxes*	
Profit or loss	No – carried forward from IAS 1
Total other comprehensive income	
Total comprehensive income	

IFRS 18.73-74, BC190

* Entities that classify all of the income and expenses from cash and cash equivalents and 'financing liabilities' in the operating category (see 2.1.3.1 and 2.1.3.2) are not permitted to present this required subtotal. However, these entities are not prevented from presenting an additional subtotal after the operating profit subtotal but before the financing category, if the criteria to present an additional subtotal are met (see 2.3.2). In this case, this additional subtotal cannot be labelled in a way that implies it excludes financing amounts (e.g. 'profit before financing'); it needs to be labelled in a way that faithfully represents the amounts included in the subtotal. See Section 8.1 for an example illustration.

2.3.2 Additional income and expenses subtotals

IFRS 18.24

Similar to IAS 1, entities are required to present additional subtotals in the income statement if they are necessary for the statement to provide a useful structured summary (see Section 4.3).

Specifically, additional subtotals need to be:

- comprised of amounts recognised and measured in accordance with IFRS Accounting Standards;
- compatible with the statement structure used to provide a useful structured summary;
- consistent from period to period; and
- displayed with no more prominence than required totals and subtotals under IFRS 18.

IFRS 18 removes the requirement in IAS 1 to reconcile additional subtotals to totals or subtotals required by IFRS Accounting Standards. Because an additional subtotal is presented only when it is compatible with the statement structure that provides a useful structured summary, this reconciliation would effectively be provided on the face of the income statement.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.3.3 Common income and expenses subtotals listed in IFRS 18

IFRS 18.118, B123, BC362

IFRS 18 specifically lists the following commonly used subtotals.

Common income and expenses subtotals listed in IFRS 18
Gross profit or loss (revenue less cost of sales) and similar subtotals. For example: • net interest income • net rental income • net fee and commission income • insurance service result • net financial result (investment income minus insurance finance income and expenses)
Operating profit or loss before depreciation, amortisation and impairments in the scope of IAS 36 (OPDAI)
Operating profit or loss, and income and expenses from all investments accounted for under the equity method
Subtotal comprising operating profit or loss and all income and expenses classified in the investing category (only for entities that do not present a required subtotal of 'Profit or loss before financing and income taxes' (see 2.3.1))
Profit or loss before income tax
Profit or loss from continuing operations

These common income and expenses subtotals listed in IFRS 18 are not considered MPMs under IFRS 18. Even though they are not defined in IFRS Accounting Standards, they are commonly understood and the reconciliation to totals or subtotals required by IFRS Accounting Standards is apparent from the face of the income statement. Therefore, they will not be subject to the disclosure requirements for MPMs (see Chapter 3).

In addition, the common income and expenses subtotals listed in IFRS 18 can be presented on the face of the income statement as long as they meet the criteria for additional income and expenses subtotals (see 2.3.2).

The table below illustrates how the presentation of common subtotals may be compatible with the income statement structure, more specifically with the method used for presenting operating expenses.

Common income and expenses subtotals listed in IFRS 18	Can it be presented on the face of the income statement?
Gross profit or loss	Only if the by-function or mixed presentation method is used
Operating profit or loss before depreciation, amortisation and impairments in the scope of IAS 36 (OPDAI)	Only if the by-nature or mixed presentation method is used
Profit or loss before income taxes	Yes, under any method
Profit or loss from continuing operations	Yes, under any method

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

2.3.4 EBITDA

IFRS 18.24, 118, BC363–BC366

One of the more commonly used performance measures in financial reporting – earnings before interest, tax, depreciation and amortisation (EBITDA) – is not defined in IFRS 18. However, IFRS 18 lists 'operating profit or loss before depreciation, amortisation, and impairments' (OPDAI) as an income and expenses subtotal that is commonly used (see 2.3.3).

Can the OPDAI subtotal be labelled as EBITDA?

IFRS 18.78-79, B80-B82, BC363-BC366

It depends. The IASB does not explicitly prohibit EBITDA as a label for OPDAI, but it expects such a label would rarely be an accurate description of OPDAI.

However, in some cases, EBITDA might be an accurate description of OPDAI – e.g. if an entity has no income and expenses in the investing category and no interest income in the operating category – i.e. all of its earnings are included in operating profit.

In addition, if an entity uses an EBITDA that is calculated differently to OPDAI in its public communications, then this measure is an MPM and the relevant disclosures for an MPM are required (see Chapter 3).

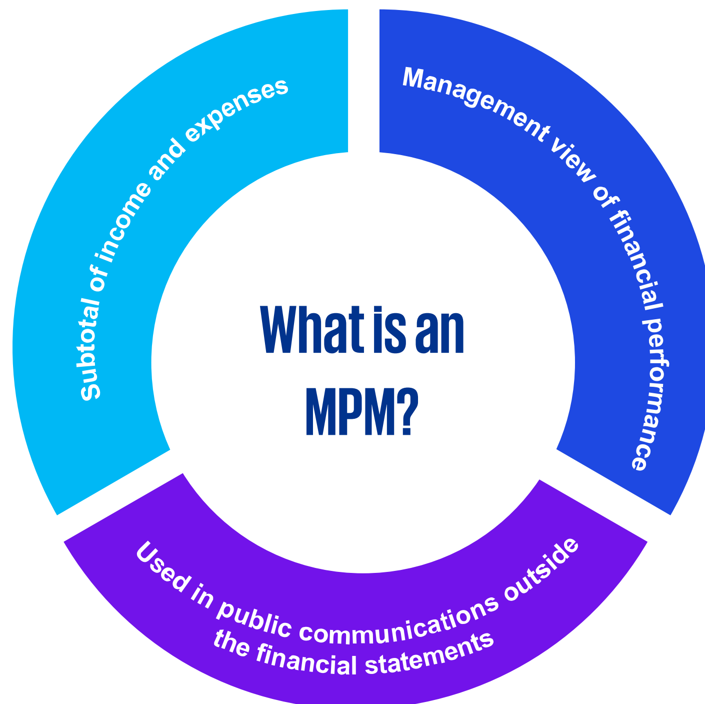
© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3 Management-defined performance measures

MPMs are now disclosed in the financial statements in a transparent way – explained and reconciled – and are subject to audit. MPMs capture some but not all 'non-GAAP' measures.

3.1 New definition

Acknowledging the usefulness of 'non-GAAP' performance measures in communicating financial performance to users, IFRS 18 defines 'management-defined performance measures' (MPMs) and includes specific requirements for their disclosure in the notes to the financial statements to enhance transparency.



IFRS 18.117-120, B113-B122

IFRS 18 defines MPMs as *subtotals of income and expenses* that:

- are used in public communications outside the financial statements (e.g. in management commentary, press releases or investor presentations) (see 3.1.1);
- communicate management's view of an aspect of the financial performance of the entity as a whole (see 3.1.2); and
- are a subtotal of income and expenses but are not a required subtotal (i.e. required to be presented or disclosed by IFRS Accounting Standards) or a common income and expenses subtotal listed in IFRS 18 (e.g. gross profit and OPDAI) (see 3.1.3).

Under IFRS 18, all information about MPMs is required to be disclosed in a single note. In certain circumstances, MPMs can also be presented on the face of the income statement (see Section 3.2).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.1.1 Public communications outside the financial statements

Scope

IFRS 18.117(a), B119-B122

A subtotal of income and expenses is an MPM only if it is used in public communications outside the financial statements. Under IFRS 18, such public communications include:

- management commentary;
- press releases; and
- investor presentations.

In contrast, oral communications (and their transcripts) and social media posts are not public communications under IFRS 18.

Timing

MPMs relate to the same reporting period as the financial statements. This means that a subtotal related to an entity's performance in the interim financial statements but not to the annual financial statements can only be an MPM in the interim financial statements. Similarly, a subtotal related to performance in the entity's annual financial statements but not to performance in the interim financial statements can only be an MPM in the annual financial statements.

When identifying MPMs for the current reporting period, an entity considers public communications related to the current reporting period. Depending on an entity's financial reporting process, it can routinely issue some communications after issuing its financial statements. In this case, an entity also considers public communications related to the previous reporting period to identify MPMs for the current reporting period, unless there is evidence indicating that a measure will no longer be used in public communications related to the current reporting period.

How will entities identify all relevant MPMs used in their public communications?

IFRS 18.BC336-BC342

Many entities have systems and processes that govern their public communications. However, some may find it challenging to identify all MPMs subject to the IFRS 18 disclosure requirements given the wide scope and variety of public communications beyond the annual report, the periods they may cover and their timing. Entities may need to adjust their systems and processes to capture all MPMs for the current reporting period.

Given that MPMs are now part of the audited financial statements, the auditor will need to assess the completeness of MPMs and obtain from management an understanding of how they are identified from period to period.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.1.2 Management's view of financial performance

IFRS 18.B124-B129, BC351-BC356

Under IFRS 18, a subtotal used in public communications outside the financial statements will generally represent management's view of financial performance, unless management rebuts this presumption with reasonable and supportable information.

Management can rebut the presumption only if it has reasonable and supportable information available that demonstrates both of the following conditions.

- The subtotal does not communicate management's view of an aspect of the entity's financial performance as a whole.
- The entity has a reason for using the subtotal in its public communications other than communicating management's view of an aspect of the entity's financial performance as a whole (e.g. regulation specifically requires that the subtotal is included in a public communication).

IFRS 18 does not require an entity to disclose when and why it has rebutted the presumption that a certain subtotal included in its public communications is an MPM.

Can an entity rebut the presumption that a subtotal of income and expenses used in public communications is an MPM?

IFRS 18.B124-B129, BC349

Possibly, but we expect it to be rare.

The IASB introduced the presumption to provide rigour and discipline in an entity's assessment of whether a measure communicates management's view by setting out a condition that is usually expected to be true – i.e. it is reasonable to expect that an entity will include a subtotal of income and expenses in its public communications to communicate management's view of an aspect of the entity's financial performance.

As the frequency and prominence of a subtotal in public communications increases, the more likely it is to be considered an MPM. It may also be unusual that the entity communicates a subtotal externally but does not use it internally, unless this is at the request of a specific user or a regulator.

3.1.3 Subtotal of income and expenses

IFRS 18.B116-B117

Under IFRS 18, only subtotals of income and expenses are MPMs. So-called non-GAAP measures – also commonly referred to as alternative performance measures or key performance indicators (KPIs) are broader than MPMs as defined in the new standard. For example, the following are not considered MPMs under IFRS 18 (i.e. they are not subtotals of income and expenses).

- A subtotal of only income or only expenses (e.g. adjusted revenue, cash-paid salary costs).
- Assets, liabilities, equity or combinations of these elements.
- Financial ratios (e.g. return on assets). However, a subtotal of income and expenses that is the numerator or denominator in a financial ratio is an MPM if the subtotal would meet the definition of an MPM were it not part of a ratio (e.g. the numerator in an adjusted gross profit margin).
- Measures of liquidity or cash flows (e.g. free cash flows).
- Non-financial performance measures (e.g. number of subscribers).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The diagram below illustrates the interaction between MPMs and other types of subtotals. The definition of an MPM explicitly states that an MPM is neither a common subtotal nor a required subtotal. However, both an MPM and a common subtotal may be an additional subtotal (see 2.3.2). For example, operating profit before research and development expenditure may meet the definition of an MPM and be presented on the face of the income statement as an additional subtotal (see Section 3.2). As another example, gross profit is a common subtotal and is therefore not an MPM. However, it may be presented on the face of the income statement as an additional subtotal.

Are MPMs the same as so-called 'non-GAAP measures'?

No. IFRS 18 deals only with a subset of non-GAAP measures – i.e. subtotals of income and expenses. Other non-GAAP measures that are not a subtotal of income and expenses (e.g. free cash flows) do not meet the definition of MPMs. Therefore, they are not subject to the disclosure requirements for MPMs.

Can an entity disclose non-GAAP measures that do not meet the definition of MPMs in the notes to the financial statements?

It depends. IFRS 18 requires specific disclosures for MPMs. IFRS Accounting Standards do not specifically prohibit disclosure in the notes to the financial statements of non-GAAP measures that are not MPMs (e.g. free cash flows); however, the definition of MPMs is narrow (i.e. it is limited to only subtotals of income and expenses).

An entity considers the legal or regulatory requirements in assessing what is required to be, or prohibited from being, disclosed in its financial statements – i.e. requirements beyond those of IFRS Accounting Standards.

In the absence of a legal or regulatory prohibition, non-GAAP measures may be disclosed in the financial statements if this is appropriate. Factors considered in determining whether it is appropriate to disclose this information in the financial statements include:

- whether the information is required specifically by regulation;
- the nature and purpose of the information;
- its relationship with IFRS Accounting Standards; and
- whether it is intended or required to be covered by the auditor's report.

In addition, if an entity discloses non-GAAP measures that do not meet the definition of an MPM under IFRS 18, then they cannot be labelled as MPMs.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

What is the difference between MPMs and additional subtotals?

IFRS 18.24, B134, BC357

Both are subtotals of income and expenses but unlike MPMs, additional subtotals always comprise amounts recognised and measured in accordance with IFRS Accounting Standards.

However, IFRS 18 does not prohibit MPMs that are based on accounting policies that differ from those used for items in the income statement, or that do not comply with IFRS Accounting Standards. An entity needs to provide information specific to the MPMs such that a user understands either how it has calculated the measure or its explanation of the terms it uses.

3.2 Where to include MPMs

IFRS 18.24, 43, 123, B118, B134, BC374-BC375

IFRS 18 states that a subtotal of income and expenses that meets the definition of an MPM is an MPM, regardless of whether it is presented in the income statement. This implies that IFRS 18 does not prohibit an entity from presenting an MPM on the face of the income statement.

An entity may present an MPM on the face of the income statement as an additional subtotal only if that subtotal is:

- comprised of amounts recognised and measured in accordance with IFRS Accounting Standards;
- compatible with the income statement structure to provide a useful structured summary;
- displayed with no more prominence than required subtotals and totals; and
- labelled in a way that is not misleading.

If an MPM does not meet the requirements for presentation as an additional subtotal, then it cannot be presented on the face of the income statement. However, an entity still discloses it in the notes.

Can an entity present MPMs on the face of the income statement?

It depends.

Under IFRS 18, an entity can only present MPMs on the face of the income statement if they comply with the requirements in the standard for additional subtotals (as set out above).

Some entities present the following additional subtotals on the face of the income statement under IAS 1.

- EBITDA (if different to OPDAI).
- Adjusted EBITDA.
- Operating profit before restructuring costs.
- Operating profit before 'non-recurring' expenses.
- Operating profit before research and development expenses.

If any of these subtotals meet the definition of an MPM, then entities will need to carefully assess whether presentation on the face of the income statement is appropriate.

As MPMs, these subtotals are subject to the new disclosure requirements (see Section 3.3).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Can entities use columns when presenting MPMs on the face of the income statement?

IFRS 18.24, BC374-375

Yes, but only if this presentation complies with the requirements for additional subtotals, in particular the requirement to not display a subtotal with undue prominence. Currently, the use of columns is relatively common in certain jurisdictions.

IFRS 18 does not explicitly prohibit entities from using columns to present MPMs on the face of the income statement. However, any MPM presented on the face of income statement needs to comply with the requirements for the income statement to provide a useful structured summary without giving undue prominence and misleading information to users (see Section 4.3).

3.3 What to disclose for MPMs

IFRS 18.121-125, B134-B137

Under IFRS 18, entities are required to disclose the following information on MPMs in a single note to the financial statements.

State	Describe	Reconcile
• that MPMs provide management's view of an aspect of the financial performance of the entity as a whole • that MPMs are not necessarily comparable with other entities' measures that share similar labels or descriptions	• the aspect of financial performance that, in management's view, is communicated by the MPM • why the MPM provides useful information about the entity's performance • how the MPM is calculated, including whether and how the measure differs from accounting policies in IFRS Accounting Standards (see below)	• between the MPM and the most directly comparable common subtotal listed in IFRS 18 or total/subtotal required to be presented or disclosed by IFRS Accounting Standards, including tax and non-controlling interest (NCI) effects for each reconciling item (as illustrated below) In addition, for each reconciling item disclose: • the amounts related to each line item in the income statement; and • how the reconciling item is calculated and contributes to the MPM providing useful information.

MPMs need to be labelled and described in a clear and understandable manner that does not mislead users of financial statements. For example, when an entity uses an MPM such as 'operating profit before non-recurring expenses', it can only use this label if that subtotal excludes all expenses the entity identifies as non-recurring and if the entity provides an explanation of how it defines 'non-recurring expenses'.

In addition, IFRS 18 requires that an entity provides specific disclosures when it:

- changes how it calculates its MPMs;
- adds a new MPM;
- ceases using a previously disclosed MPM; or
- changes how it determines the income tax effects in the reconciliation.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

These disclosures include an explanation and rationale for these changes and restated comparative information, if practicable.

An illustration of the reconciliation requirements is as follows.

	20X7	Tax effect	Effect on NCI
Adjusted operating profit (MPM)	X		
Restructuring costs (included in employee benefit expenses)[a]	(X)	X[b]	(X)
Operating profit (required subtotal)	X		

[a] The restructuring expenses in 20X7 are related to the Group's restructuring programme. These expenses include employee retraining expenses and relocation expenses, which are all related to the closure of several factories in [*Country S*].

[b] The tax effect of restructuring costs in [*Country S*] is calculated based on the statutory tax rate applicable in [*Country S*] at the end of 20X7, which was X percent.

How onerous are the new MPM disclosures?

IFRS18.B141, BC385-BC387

The reconciliation (as illustrated above) may involve additional effort.

Under IFRS 18, an entity is required to disclose both the effect on NCI and the tax effects for each adjustment included in the reconciliation. These effects need to be disclosed even if they are not part of management's assessment of performance. An entity will need to determine an appropriate method to calculate the income tax effect for each reconciling item in the note.

Entities are allowed to determine the tax effect under a simplified approach to reduce complexity and costs – i.e. they may base it on the statutory rate applicable to the transaction in the applicable tax jurisdiction or a reasonable pro rata allocation of the current and deferred tax. The latter is similar to the approach for determining the tax effects on items of other comprehensive income in IAS 12 *Income Taxes*. Alternatively, entities may choose to develop another method that achieves a more appropriate allocation in their specific facts and circumstances.

The IASB noted that disclosure for each reconciling item provides users of financial statements with the information they need to calculate an adjusted earnings-per-share measure.

Given the complexity of the MPM disclosure requirements, entities may want to rethink and/or revisit some of the subtotals of income or expenses that they use in their public communications before IFRS 18 becomes effective.

Does IFRS 18 prescribe a specific format for the reconciliation?

IFRS18.123(c), B136-B140, BC378, BC382

No. IFRS 18 requires an entity only to provide a reconciliation between the MPM and the most directly comparable common subtotal listed in paragraph 118 of IFRS 18, or a total/subtotal specifically required to be presented or disclosed under IFRS Accounting Standards.

The IASB considered requiring an entity to provide the reconciliation in a specific format – e.g. a table with reconciling items as columns adjusting the line items presented in the income statement. However, the IASB decided not to do so because the most appropriate format for the reconciliation will depend on the specific MPMs.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

3.4 Interaction with regulatory requirements

In many jurisdictions, there are specific regulatory requirements on presenting non-GAAP measures. These requirements generally apply to measures disclosed outside the financial statements. However, in some jurisdictions they also apply to measures presented in the financial statements. This means that entities will need to assess how IFRS 18's requirement to include MPMs in the financial statements interacts with current regulatory guidance in their jurisdiction.

Are the requirements in IFRS 18 aligned with current regulatory guidance?

Not necessarily.

Some regulators may have more restrictive requirements on when it is and is not appropriate to use non-GAAP measures (alternative performance measures) in financial reports or related documents. For example, the US Securities and Exchange Commission's *Final Rule: Conditions for Use of Non-GAAP Financial Measures* prohibits inclusion of certain measures (e.g. EBITDA and 'special' EPS) in the financial statements.

Other regulators – e.g. the European Securities and Markets Authority (ESMA)[14] and the International Organization of Securities Commissions (IOSCO)[15] – have published guidance on using non-GAAP financial measures. IFRS 18's requirements on MPMs are broadly aligned with this guidance. For example, similar to the ESMA and IOSCO guidance, IFRS 18 requires entities to describe MPMs in a clear and understandable manner and reconcile an MPM to the most directly comparable subtotal or total specified in IFRS Accounting Standards. However, there are scope differences – ESMA and IOSCO guidance applies to all financial non-GAAP measures, including measures on assets, liabilities and cash flows; disclosure requirements in IFRS 18 apply only to a subset of non-GAAP measures defined as MPMs – i.e. subtotals of income and expenses.

Entities may need to monitor any changes in the local regulatory landscape as the effective date of IFRS 18 approaches.

Are MPMs subject to audit?

Yes. IFRS 18 requires MPMs to be disclosed in the financial statements. Since the notes are an integral part of the financial statements, the information disclosed about MPMs will be subject to audit.

14. Guidance issued by ESMA: ESMA guidelines on alternative performance measures, and Questions and answers – ESMA Guidelines on APMs.
15. Guidance issued by IOSCO: Statement on non-GAAP financial measures.

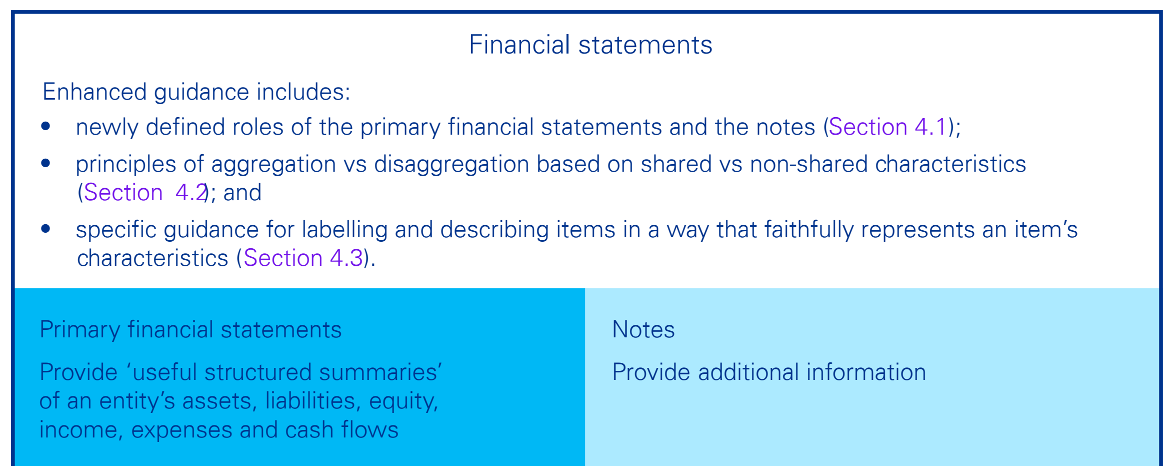
© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

4 Aggregation and disaggregation

Enhanced guidance on grouping information in the financial statements and new requirements when items are labelled as 'other'

IFRS 18.9, 15, B16

The objective of financial statements is to provide users with useful information about an entity's assets, liabilities, equity, income, expenses and cash flows. To achieve this, entities are required to aggregate information about large numbers of transactions and other events, and determine the appropriate level of detail to provide in the primary financial statements and in the notes. IFRS 18 provides enhanced guidance to help entities group – i.e. aggregate and disaggregate – information in the financial statements.



4.1 Newly defined roles

The roles of the primary financial statements and the notes

IFRS 18.15–18, BC45–BC46, BC53

In preparing the financial statements, entities make decisions on *whether* and *where* to provide information in the financial statements. Materiality continues to determine *whether* an entity is required to present or disclose information in its financial statements – i.e. an entity is not required to present or disclose information otherwise required by IFRS Accounting Standards if the resulting information is not material. It is the roles that guide an entity to determine *where* it provides information in the financial statements.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

IFRS 18 introduces defined and complementary roles for the primary financial statements and the notes to guide entities when making decisions about *where* to provide material information. To meet the objective of financial statements – i.e. to provide useful information to users – the primary financial statements present useful structured summaries of an entity's assets, liabilities, equity, income, expenses and cash flows, and the notes disclose additional material information. These roles reflect the fact that not all material information can be presented in the primary financial statements; their role is to provide more summarised information. The notes are used to supplement the primary financial statements with additional material information.

As a result of these distinct yet complementary roles, the primary financial statements provide information that is more aggregated than that provided in the notes; the notes provide more detailed information.

Financial statements

Primary financial statements	Notes
Provide structured summaries that are useful for: • obtaining an understandable overview of the entity's assets, liabilities, equity, income, expenses and cash flows; • making comparisons between entities and between reporting periods for the same entity; and • identifying items or areas about which additional information is disclosed in the notes.	Provide material information necessary for: • enabling an understanding of line items presented in the primary financial statements; and • supplementing the primary financial statements with additional material information.

More aggregated → More disaggregated

Information presented in the primary financial statements

IFRS 18.16, 21, 75, 103, BC45–BC46, BC55

IFRS 18 continues to require entities to present specific line items separately in the primary financial statements (e.g. revenue in the income statement and property, plant and equipment in the balance sheet). In addition, other IFRS accounting standards may require entities to present specific line items.

However, IFRS 18 introduces a new and defined role for the primary financial statements. This role is to provide a useful structured summary of an entity's financial information – i.e. summarised information about an entity's assets, liabilities, equity, income, expenses and cash flows that is useful to users and provides an understandable overview. An entity considers this role when determining whether to provide material information in the primary financial statements or whether to provide it in the notes.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Will the new and defined role result in entities presenting more or fewer line items in the primary financial statements?

IFRS 18.15–20, 23, B8-B9, BCZ50, BC54, BC75

It depends.

Materiality continues to apply when presenting (and disclosing) information in the financial statements. However, for the primary financial statements, an entity now needs to also consider whether presenting a line item contributes to providing a useful structured summary.

An entity is not required to present a line item separately in the primary financial statements, even if material, if doing so would not fulfil the statements' role of providing useful structured summaries. If any material information is not presented in the primary financial statements, then it is disclosed in the notes. Conversely, an entity may determine that presenting additional line items is necessary to provide useful structured summaries.

The information necessary to provide an understandable overview to users depends on an entity's specific facts and circumstances and requires judgement. When determining whether to present information in the primary financial statements, entities need to carefully consider what information helps to:

- provide an understandable overview;
- facilitate comparisons; and
- highlight key items or areas for which users may wish to seek additional information in the notes.

Information disclosed in the notes

IFRS 18.17-18, 113, B6-B7, BC45, BC48

The notes complement the primary financial statements by providing more detailed information. The role of the notes is to provide material information necessary to both:

- enable users to understand the line items presented; and
- supplement the primary financial statements with additional information to meet the objective of financial statements.

For example, an entity may disclose disaggregated information about line items presented in the primary financial statements to aid users in understanding those line items (e.g. disaggregated information about inventory classifications, such as work in progress and finished goods). An entity may also disclose information about key assumptions and judgements used in measuring the line items presented (e.g. valuation assumptions used in measuring contingent consideration related to a business combination).

Other disclosures supplement the primary financial statements by providing material information that may not directly relate to a line item presented in the primary financial statements, but that is otherwise necessary to provide users with useful information. For example, an entity may disclose information about its exposure to various risks (e.g. financial risks such as credit risk, liquidity risk and market risk).

Information presented in the financial statements or disclosed in the notes

IFRS 18.41-42, B79, B111, IAS 1.58, 78, 97-98

Similar to IAS 1, IFRS 18 continues to require entities to consider materiality when assessing what information to include in the financial statements – i.e. information to present in the primary financial statements or disclose in the notes. It also continues to provide examples of circumstances when separate presentation or disclosure of material items may be required. However, IFRS 18 goes further by introducing roles for the primary financial statements and the notes, and providing enhanced guidance for aggregation and disaggregation to assist entities with determining whether material information is presented in the primary financial statements or disclosed in the notes. IFRS 18 also adds non-recurring items as an example of income and expenses that may warrant separate presentation or disclosure.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Will an entity's assessment of whether to present or disclose an item of income or expense change under the new guidance?

IFRS 18.42, B79, IAS 1.97-98

Maybe.

Under IAS 1, an entity presents or discloses material items of income or expense. The new guidance similarly requires presentation or disclosure of material items of income or expense (e.g. write-downs of inventories and reversals of provisions). However, paragraph B79 of IFRS 18 explicitly includes 'non-recurring income and expenses' as potentially having sufficiently dissimilar characteristics to warrant separate presentation or disclosure. As a result, entities may need to consider non-recurring items when determining what information to separately present or disclose in the financial statements.

Some may consider *non-recurring* items as *unusual* items. The IASB sought to define 'unusual income or expenses' but abandoned this due to differing stakeholder views on how they should be defined. Nonetheless, the IASB expects that disclosure of information about *unusual* items will be improved given the enhanced requirements relating to disaggregation of items with dissimilar characteristics and the appropriate labelling of items.

4.2 Principles of aggregation and disaggregation

IFRS 18.41-42, B3, B17-B18

IFRS 18 enhances the guidance on grouping transactions and other events into line items presented in the primary financial statements and information disclosed in the notes. Applying the principles for grouping information, an entity:

- **aggregates** assets, liabilities, equity, income, expenses or cash flows into items based on shared characteristics (similar characteristics);
- **disaggregates** items based on characteristics that are not shared (dissimilar characteristics);
- **aggregates or disaggregates** items to present line items in the primary financial statements that provide useful structured summaries or disclose material information in the notes – i.e. to fulfil the roles of the primary financial statements and the notes; and
- **ensures** that aggregation and disaggregation do not obscure material information.

These principles aim to balance the information needs of users by helping entities to group items in a way that provides detailed information but does not obscure material information with too much detail.

Process of aggregation and disaggregation

IFRS 18.41-42, B17-B18

To apply the principles for grouping and ensure the primary financial statements and notes fulfil their respective roles, entities may find it helpful to follow the steps outlined below.

1. Identify
   Identify assets, liabilities, equity, income, expenses or cash flows arising from individual transactions or events

2. Aggregate
   Aggregate assets, liabilities, equity, income, expenses or cash flows into items based on similar characteristics

3. Disaggregate
   Disaggregate items based on dissimilar characteristics

By following this process, an entity disaggregates items whenever the resulting information is material. If an entity determines not to present material information separately in the primary financial statements, then it discloses the information in the notes.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

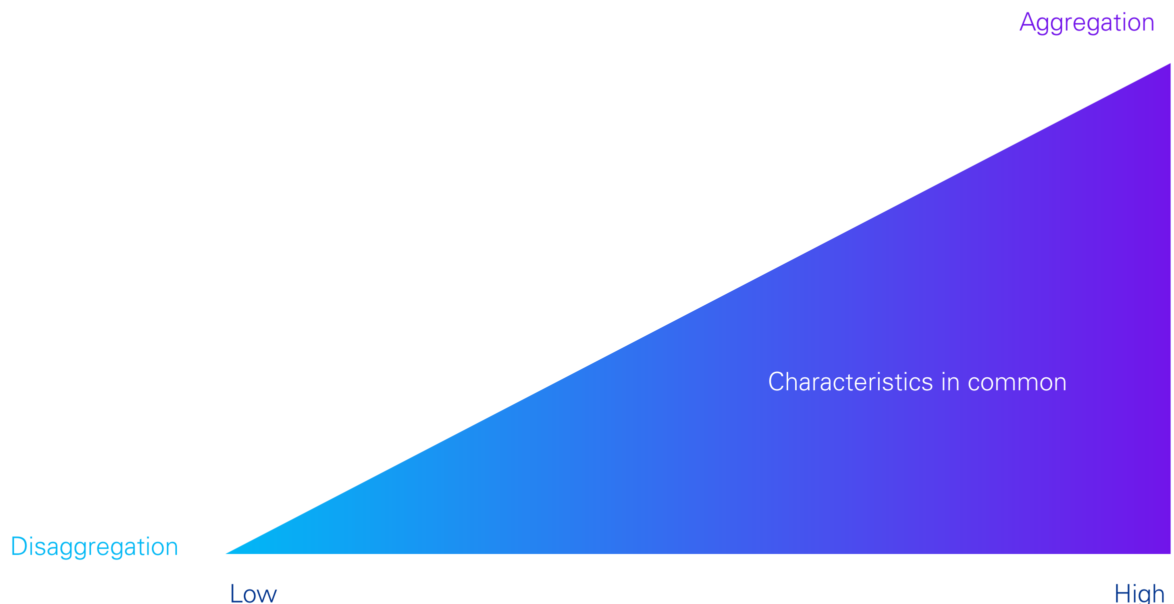
Basis of aggregation and disaggregation

IFRS 18.41-42, B19-B21, B78-B79, B110-B111

The process of grouping requires judgement as to whether items have similar or dissimilar characteristics. Some examples of characteristics that an entity may consider when grouping items include their:

- nature;
- function;
- measurement basis;
- size;
- geographical location; and
- regulatory environment.

The more similar the characteristics of items are, the more likely it is that aggregating those items will fulfil the role of the primary financial statements or the notes. Conversely, the more dissimilar the characteristics of items are, the more likely it is that disaggregating the items will fulfil the roles of the primary financial statements or the notes.



Because the role of the primary financial statements is to provide useful structured summaries, line items are likely to include items with some dissimilar characteristics. Generally, this means that further disaggregation (based on dissimilar characteristics) in the notes is necessary to provide material information.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Will entities change how they group information in the financial statements as a result of the new principles of aggregation and disaggregation?

IFRS 18.41-42, B21-B22, BC3, BC74

Potentially, yes.

IAS 1 does not include detailed guidance on how entities group information to be presented in the primary financial statements or disclosed in the notes. As a result, different entities often group information in their own way.

IFRS 18 introduces consistent principles for grouping information, which may change how entities aggregate and disaggregate information. However, determining how to group information remains a judgement area.

To assist entities in making these judgements, IFRS 18 provides additional application guidance. For example, the application guidance for grouping items based on similar characteristics requires that items aggregated and presented as line items in the primary financial statements have *at least* one similar characteristic. Conversely, a *single dissimilar* characteristic may result in disaggregated information being disclosed in the notes.

Example 4 – Grouping of operating expenses

Entity X is evaluating which expense line items to present in the operating category of the income statement.

X decides to present the analysis of operating expenses on the face of the income statement by function as this reflects the most useful structured summary of its operating expenses (see 2.2).

X classifies expenses relating to its production activities (e.g. raw materials, employee costs and depreciation) into a 'cost of sales' line item. However, X also incurs various other operating expenses such as human resources, legal, accounting, commissions and marketing costs. In evaluating what level of aggregation for these other operating expenses provides the most useful structured summary (see 2.2.1), X observes the following:

- The human resources, legal and accounting costs relate to X's administrative activities.
- The commissions and marketing costs relate to X's selling activities.

X determines that the operating expenses relating to administrative activities share similar characteristics due to their function within the entity and, accordingly, aggregates these expenses. Similarly, X determines that the expenses relating to selling activities are sufficiently similar for aggregation.

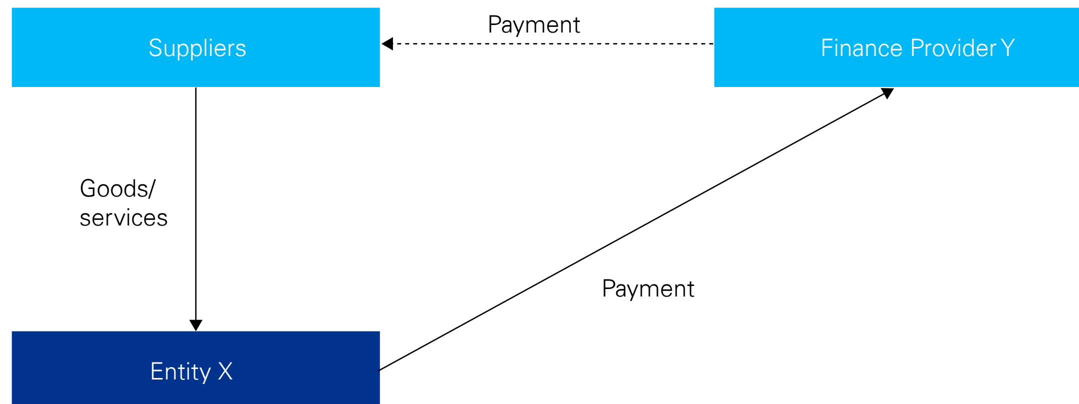
X then evaluates whether further aggregation of the administrative expenses and selling expenses into a 'selling and administrative expenses' line item would provide a useful structured summary. It determines that the characteristics of these expenses are sufficiently dissimilar and that further aggregation is not appropriate in its circumstances. Instead, disaggregation – i.e. presenting separate line items for selling expenses and administrative expenses – is necessary to provide the most useful structured summary. X notes that separate presentation provides users with a more understandable overview of its operating expenses and may facilitate comparison between X and its peers.

X provides additional information in the notes about the nature of the expenses related to its cost of sales, administrative and selling activities (see 2.2.2) and other material information necessary for users' understanding of the expenses.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Example 5 – Grouping of trade payables subject to a reverse factoring arrangement

Entity X enters into a reverse factoring arrangement[16] related to some of its trade payables with Finance Provider Y. Under the arrangement, Y agrees to pay amounts owed by X to X's suppliers.



When considering what information to present in the balance sheet and to disclose in the notes, X determines that the characteristics of the trade payables subject to the reverse factoring arrangement (e.g. nature, function, measurement basis and size) are sufficiently similar to its other trade payables. As such, X determines that presenting a separate line item in the balance sheet for trade payables subject to the reverse factoring arrangement is not necessary to provide a useful structured summary of its liabilities (see Section 4.1).

Based on judgement relating to its specific facts and circumstances, X presents a line item in the balance sheet that comprises (aggregates) trade payables – i.e. those that are subject to the reverse factoring arrangement and those that are not.

However, X determines that the characteristics of trade payables subject to the reverse factoring arrangement are sufficiently dissimilar from its other trade payables, and that providing disclosure in the notes results in material information.

Therefore, X discloses additional information in the notes to help users' understanding of the trade payables line item (e.g. disaggregated information about the amounts subject to the reverse factoring arrangement, the terms and conditions, the due dates (applying paragraphs 44F and 44H of IAS 7), and other relevant information).

4.3 Guidance for labels and descriptions

IFRS 18.43, B24-B26, BC77-BC80

After applying the guidance on aggregation and disaggregation, an entity needs to determine how to label and describe the items presented and disclosed. The labels and descriptions used need to provide users with enough information to understand those items. IFRS 18 clarifies that entities are required to:

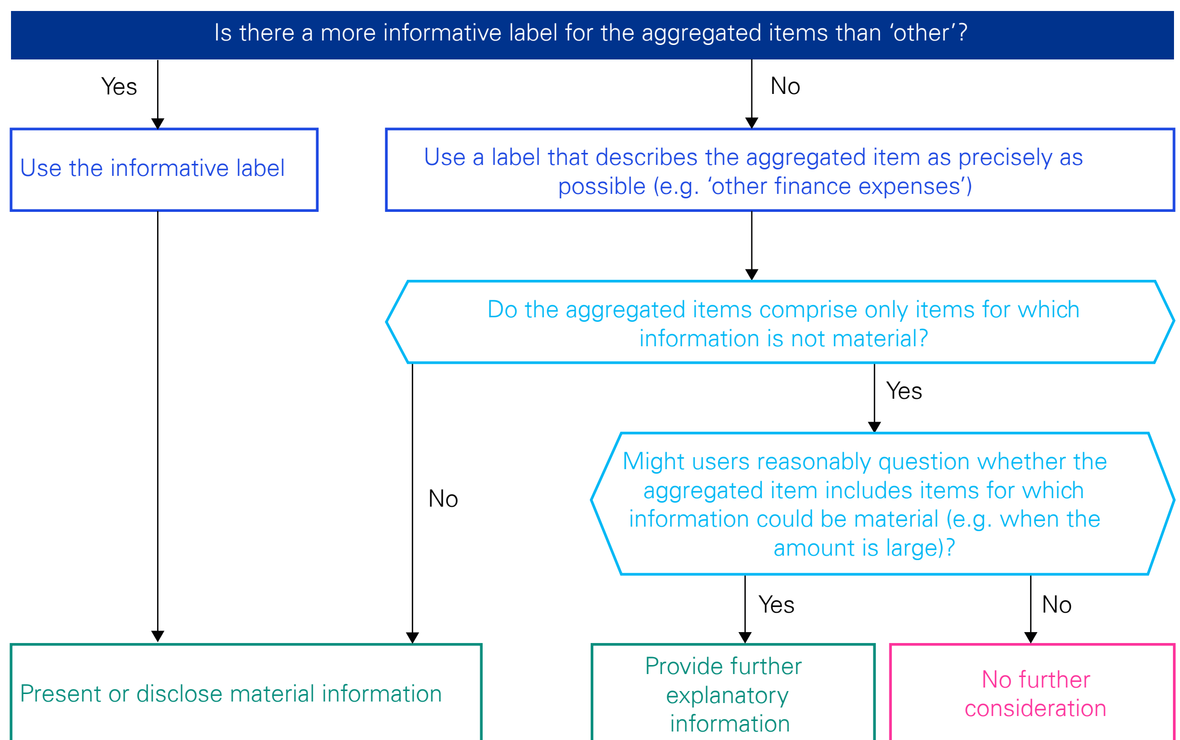
- label and describe items presented in the primary financial statements (e.g. totals, subtotals and line items) or disclosed in the notes in a way that faithfully represents the item; and
- provide users with the necessary descriptions and explanations to understand those items.

16. Reverse factoring arrangements are also commonly referred to as supplier finance arrangements. Under these arrangements, the factor (finance provider) agrees to pay amounts owed by the entity to the entity's suppliers. The entity then pays the factor on the same date or at a later date than when suppliers are paid. These arrangements typically provide the entity with extended payment terms (compared with the related invoice payment due date) or the supplier with the benefit of early payment.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Because items presented or disclosed are often an aggregation (group) of items arising from individual transactions or events, entities may find it challenging to find a more informative label than 'other'. When an item is comprised of a material item and other immaterial items, labelling the item by describing only the material item may result in an informative label. If an item is instead comprised of immaterial items, then using a label that describes the similar or dissimilar characteristics considered when grouping the items may also result in an informative label.

IFRS 18 provides the following application guidance to help entities that are unable to determine a more informative label than 'other'.



Is an entity permitted to label an item as 'other' under IFRS 18?

IFRS 18. B24-B26

Yes, but IFRS 18 discourages entities from doing so by requiring them to evaluate whether a more informative label exists and to provide additional disclosures for amounts labelled as 'other'.

Specifically, if an entity is unable to find a more informative label than 'other', then the following applies:

- **For any aggregation** – The entity uses a label that describes the aggregated item as precisely as possible (e.g. 'other operating expenses' or 'other finance expenses') and provides disaggregated information in the notes, if it is material.
- **For an aggregation comprising only items for which information is not material** – The entity considers whether the aggregated item is sufficiently large such that users could reasonably question whether it includes items for which information could be material. If so, information to resolve that question is material and the entity discloses further information, for example, to explain:
  - that the aggregated item includes only items for which information is not material; and
  - the nature and amount of the largest item within the aggregated item.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

5 Other changes for the financial statements

Elimination of classification options for interest and dividends in the statement of cash flows, and goodwill presented as a new line item in the balance sheet

5.1 Statement of cash flows

To reduce diversity in the classification and presentation of cash flows, and improve comparability between entities, IFRS 18 introduces consequential amendments to IAS 7 that:

IAS 7.18(b), 20

- require all entities to use the operating profit or loss subtotal as the starting point when presenting operating cash flows under the indirect method; and

IAS 7.33A, 34A–D

- eliminate the options for classifying interest and dividend cash flows for many entities (see 5.1.1).

5.1.1 Interest and dividend cash flows

IAS 7 is amended to require an entity to classify interest and dividend cash flows based on its main business activities.

For those entities that do not provide financing to customers or invest in assets as a main business activity (see 2.1.2), the new classification requirements, and how they differ from the current requirements in IAS 7, are summarised in the table below.

Entities *without* specified main business activities		
Cash flow items	**Current IAS 7***	**Amended IAS 7**
Interest paid	Operating or financing	Financing
Interest received	Operating or investing	Investing
Dividends received	Operating or investing	Investing
Dividends paid	Operating or financing	Financing

* Under current IAS 7, classification is subject to an accounting policy choice.

IAS 7.33A, 34B–34D

Entities with specified main business activities (i.e. providing financing to customers and/or investing in assets) apply different classification requirements (see 2.1.3). These entities classify interest paid, interest received and dividends received each in a single category of the statement of cash flows, depending on how the related income or expenses are classified in the income statement. They classify dividends paid as a financing activity, as set out in the table below.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Entities *with* specified main business activities		
Cash flow items	**Classification in the income statement**	**Classification in the statement of cash flows**
Interest paid **Interest received** **Dividends received**	In a single category	In the same category
	In more than one category	For each cash flow item, an accounting policy choice applies to classify the corresponding cash flow in *one* of the income statement categories
Dividends paid	If dividends paid relate to instruments classified as liabilities, see above guidance on 'interest paid' Classification in the income statement is not relevant if dividends paid relate to instruments classified as equity	Financing

5.2 Balance sheet

IFRS 18.103(d)

IFRS 18 introduces a new requirement for goodwill to be presented as a line item in the balance sheet.

5.3 Additional earnings per share (EPS) disclosures

IAS 33.73B

Similar to current IAS 33 *Earnings per Share*, entities are permitted to disclose additional amounts per share based on alternative measures of earnings – e.g. entities may disclose EBITDA per share. IFRS 18 amends IAS 33 to permit entities to disclose additional amounts per share – i.e. in addition to basic and diluted EPS amounts – using only the following as the numerator:

- a required income and expenses total or subtotal (see Section 2.3.1);
- a common subtotal listed in IFRS 18 (see Section 2.3.3); or
- an MPM disclosed by the entity (see Section 3.3).

The numerator is the amount attributable to ordinary equity holders of the parent entity.

IAS 33.73C(b)

The denominator for the calculation of the additional basic and diluted per-share amounts is the same as the weighted-average number of ordinary shares used in the basic and diluted EPS calculation, as required under IAS 33.

IAS 33.73C(a), (c)

Similar to current IAS 33, if an entity discloses additional basic and diluted amounts per share, then it discloses these additional amounts per share with equal prominence and in the notes to the financial statements only – i.e. it is not permitted to present them in the primary financial statements.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

6 Interim financial reporting

IAS 34 *Interim Financial Reporting* amended to conform to IFRS 18 for annual financial statements

6.1 Interim financial reporting

IAS 34.10

Paragraph 10 of IAS 34 continues to require entities to present, as a minimum in their condensed interim financial statements, the same headings and subtotals as in the most recent annual financial statements. Further, additional line items and explanatory notes are still included if their omission would make the condensed interim financial statements misleading. The paragraph has been amended only to require entities to consider the enhanced principles of aggregation and disaggregation when preparing condensed interim financial statements (see Chapter 4).

IAS 34.16A(m), IFRS 18.B120

IFRS 18 introduces consequential amendments to IAS 34 that require entities to provide the additional disclosures for MPMs (see Chapter 3) in their interim financial statements – i.e. these disclosures are required in both the interim and annual financial statements. However, only MPMs that relate to the entity's performance in the interim reporting period need to be included in the interim financial statements (see 3.1.1).

How will IFRS 18 impact the condensed interim financial statements?

IAS 34.10, IFRS 18.41-45, C4

Similar to IAS 1, IFRS 18 provides requirements for presenting line items as well as headings and subtotals in the annual financial statements. Paragraph 10 of IAS 34 requires entities to present in their condensed interim financial statements each of the headings and subtotals included in their most recent annual financial statements. This means that entities need to present the operating profit subtotal in both the interim financial statements and the annual financial statements. However, an entity still needs to apply judgement to determine which additional line items it needs to present in the condensed interim financial statements – i.e. those additional line items whose omission would make the financial statements misleading.

In addition, the enhanced principles of aggregation and disaggregation in IFRS 18 will also apply to the condensed interim financial statements (see Sections 4.1–4.3). Similar to the annual financial statements, if any material information is not presented in the interim primary financial statements, then it is disclosed in the notes. The objective is to ensure that the condensed interim financial statements include all information that is relevant to an understanding of an entity's financial position and performance.

The key impact on entities' interim reporting is the requirement to disclose information about MPMs, which is now explicitly required in the condensed interim financial statements. This will involve additional effort as there is no relief from the reconciliation requirement (see Chapter 3).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Can disclosures related to MPMs be incorporated by cross-reference to another report outside the interim financial statements?

IAS 34.16A(m), IFRS 18.121-125

Yes, but there may be some practical challenges.

Similar to other disclosures required by paragraph 16A of IAS 34, entities are permitted to incorporate the MPM disclosures by cross-reference from the interim financial statements to another report (e.g. management commentary) if that report is available to users on the same terms and at the same time as the interim financial statements.

However, existing information about an entity's performance measures that is provided in management commentary or other similar reports may not include the detailed disclosures required for MPMs under IFRS 18. For example, management commentary may not include reconciliations between each MPM and the most directly comparable common subtotal listed in IFRS 18 or subtotal/total required to be presented or disclosed by IFRS Accounting Standards, including the tax and NCI effects for each reconciling item. In addition, IFRS 18 requires the information related to MPMs to be provided in a single note (see Section 3.3). Performance measures presented in the management commentary may also include measures that do not meet IFRS 18's definition of MPMs – e.g. free cash flows (see 3.1.3). Therefore, if MPMs are included by cross-reference then it may be challenging to clearly identify those measures that form an integral part of the interim financial statements and, as such, are subject to assurance (if applicable).

6.2 Transition to IFRS 18 in interim financial statements

IFRS 18.C4

IFRS 18 requires that in the first year of applying the new standard, entities present in their condensed interim financial statements each of the headings and subtotals discussed in 2.3.1 of this publication, along with restated comparatives. This particular requirement applies in the first year despite the requirement in paragraph 10 of IAS 34 for entities to present in their condensed interim financial statements each of the headings and subtotals included in their most recent annual financial statements. This means that entities need to allow additional time for preparing interim financial statements in the first year of applying IFRS 18, particularly given the changes to the structure of the income statement. However, IFRS 18 is silent on the presentation of the newly specified line item for goodwill in the balance sheet in the transitional year (see Section 5.2).

IFRS 18.C5

In the first year of applying IFRS 18, entities are required to disclose reconciliations for each line item presented in the interim income statement for the comparative periods immediately preceding the current and cumulative periods in which IFRS 18 is first applied. An entity discloses a reconciliation for each line item in the income statement between:

- the restated amounts presented under IFRS 18; and
- the amounts previously presented under IAS 1.

IFRS 18.C6

The reconciliations are permitted, but not required, for the current period or earlier comparative periods.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

7 Effective date and transition

IFRS 18 applies retrospectively for annual reporting periods beginning on or after 1 January 2027

7.1 Effective date

IFRS 18.C1

IFRS 18 applies for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. If an entity chooses to apply the new standard early, then it discloses this fact in the notes to the financial statements.

7.2 Transition to IFRS 18

IFRS 18.C2

Entities apply IFRS 18 retrospectively in accordance with IAS 8 *Basis of Preparation of Financial Statements*[17].

If an entity provides additional comparative information, does it need to restate this information when it first applies IFRS 18?

IFRS 18.B14-B15, C2

Yes.

An entity may choose (or may be required under local law or other regulations) to provide additional comparative information beyond that which is included in a complete set of financial statements. For example, it may present an income statement in which it presents the current reporting period, the preceding period and an additional comparative period.

IFRS 18 does not provide any relief on transition for additional comparative periods. This means that entities apply IFRS 18 retrospectively for the immediately preceding period and for any additional comparative periods presented in the first year of applying the standard.

IFRS 18.C3

In the first year of applying IFRS 18, entities are required to disclose specific reconciliations in both the annual and the interim financial statements (see Section 6.2). For the comparative period immediately preceding the period in which IFRS 18 is first applied, an entity discloses a reconciliation for each line item in the income statement between:

- the restated amounts presented under IFRS 18; and
- the amounts previously presented under IAS 1.

IFRS 18.C6

The reconciliations described above are permitted, but not required, for the current period or earlier comparative periods.

IFRS 18.C7

IFRS 18 includes transitional requirements that allow eligible entities (e.g. venture capital organisations, mutual funds and some insurers) to change their election for measuring investments in associates and joint ventures, from the equity method to fair value through profit or loss (as specified in paragraph 18 of IAS 28), when they first apply the new standard. If an entity makes this change, then it applies the change retrospectively under IAS 8. It is also required to account for the specific investments affected in the same way in its separate financial statements (as required by paragraph 11 of IAS 27 *Consolidated and Separate Financial Statements*).

17. Previously IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Why might an entity elect to measure its investments in associates and joint ventures at fair value when adopting IFRS 18?

IFRS 18.BC423

Entities that are eligible for the election often invest in assets as a main business activity. As explained in Section 2, for entities with a specified main business activity of investing in assets, the income and expenses from investments in associates and joint ventures measured at fair value are classified in the operating category in the income statement. However, if these investments are accounted for under the equity method, then the related income and expenses are always classified in the investing category – i.e. they are not classified in the operating category even if an entity invests in those assets as a main business activity.

Some eligible entities might have previously chosen to measure their investments in associates and joint ventures under the equity method. These entities may elect to measure their investments at fair value when adopting IFRS 18 to reflect the related income and expenses in the operating profit or loss subtotal.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8 Special considerations for banks and insurers

8.1 Banks

8.1.1 Income statement structure

IFRS 18 includes specific provisions for entities with main business activities of providing financing to customers and/or investing in assets (see 2.1.3). The main business activities for a retail and investment bank typically include both providing financing to customers and investing in financial assets. For a retail bank, main business activities typically involve providing financing to customers, but might also include investing in financial assets. All banks, including retail banks, have a treasury function that typically holds large amounts of investments in debt and equity instruments. Each bank needs to assess, based on its specific facts and circumstances, whether it invests in such instruments as a main business activity (see 2.1.1). This assessment is important because certain income and expenses are classified in the operating category, which would otherwise be classified in the investing or financing category.

In addition to the general requirements (see 2.1.2), banks also need to apply the additional specific requirements (see 2.1.3).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.1.1.1 Retail and investment banks

An example income statement for a bank that both provides financing to customers *and* invests in financial assets as main business activities (e.g. a retail and investment bank) is shown below.

Category	Illustrative income statement Retail and investment banks that provide financing to customers and invest in financial assets		Reference	Subtotals
Operating	Interest revenue calculated using the effective interest method (including those on cash and cash equivalents)	X	8.1.1.2	
Operating	Interest expense (on specified main business activities)	(X)		
Operating	**Net interest income**	X	8.1.1.7	Additional subtotals
Operating	Fee and commission income	X		
Operating	Fee and commission expense	(X)		
Operating	**Net fee and commission income**	X	8.1.1.7	Additional subtotals
Operating	Net trading income	X		
Operating	Net investment income	X	8.1.1.6	
Operating	Net gain/(loss) arising from derecognition of amortised cost financial assets	(X)		
Operating	**Total income**	X	8.1.1.7	Additional subtotals
Operating	Impairment losses on financial instruments measured at amortised cost and at fair value through other comprehensive income	(X)		
Operating	Employee benefits expense	(X)		
Operating	Depreciation and amortisation expense	(X)		
Operating	Other operating expenses	(X)		
	Operating profit	X		New subtotals
Investing	Share of profit or loss of equity-accounted investees	X		
Investing	Income from other investments (not as main business activity)	X	8.1.1.6	
	Profit or loss before financing and income tax	X	8.1.1.3	New subtotals
Financing	Interest expense on borrowings that are not part of main business activity	(X)	8.1.1.3	
Financing	Interest expense on lease and pension liabilities	(X)		
	Profit or loss before income tax	X		
Income tax	Income tax expense	(X)		
	Profit or loss from continuing operations	X		
Discontinued operation	Profit or loss from discontinued operations	X		
	Profit or loss	X		

New categories: Operating, Investing, Financing

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.1.1.2 Income and expenses from cash and cash equivalents

IFRS 18.56(a)

Banks that invest in financial assets as a main business activity (e.g. retail and investment banks) always classify income and expenses from cash and cash equivalents in the operating category.

Can a bank that does not invest in financial assets as a main business activity classify income and expenses from cash and cash equivalents in the investing category?

IFRS 18.56(b)

It depends.

Income and expenses from cash and cash equivalents that relate to the bank's main business activity of providing financing to customers are always classified in the operating category.

For income and expenses from cash and cash equivalents that do not relate to providing financing to customers, the bank has an accounting policy choice. It can choose to classify these income and expenses in either the operating or the investing category. This accounting policy needs to be consistent with that for presenting income and expenses from 'financing liabilities' that do not relate to the main business activity (see 8.1.1.3). In other words, if a bank chooses to classify all income and expenses from 'financing liabilities' in the operating category, then it is required to also classify all income and expenses from cash and cash equivalents in the operating category.

The accounting policy choice is not available to those banks that also invest in financial assets as a main business activity. A retail and investment bank classifies income and expenses from all cash and cash equivalents in the operating category, as illustrated above.

8.1.1.3 Income and expenses from 'financing liabilities'

IFRS 18.65(a), 66

Banks always classify income and expenses from 'financing liabilities' (i.e. liabilities that arise from transactions involving only the raising of finance) that relate to providing financing to customers (i.e. its main business activity) in the operating category.

Banks can choose to classify income and expenses from 'financing liabilities' that do not relate to providing financing to customers in either the operating or the financing category. If a bank cannot distinguish between the liabilities that relate to providing financing to customers and those that do not, then it classifies income and expenses from these 'financing liabilities' in the operating category.

What are the implications of presenting all income and expenses from 'financing liabilities' in the operating category?

IFRS 18.73, 24

If a bank chooses to classify all income and expenses from 'financing liabilities' in the operating category under paragraph 65(a)(ii) of IFRS 18, then it does not present the profit before financing and income taxes subtotal.

The bank's accounting policy choice also affects how it classifies income and expenses arising from hybrid contracts with host liabilities, foreign exchange differences and derivatives. Certain of these income and expenses will be classified in the operating category rather than the financing category as a result (see 8.1.1.4–8.1.1.5).

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.1.1.4 Income and expenses arising from hybrid contracts with a host liability

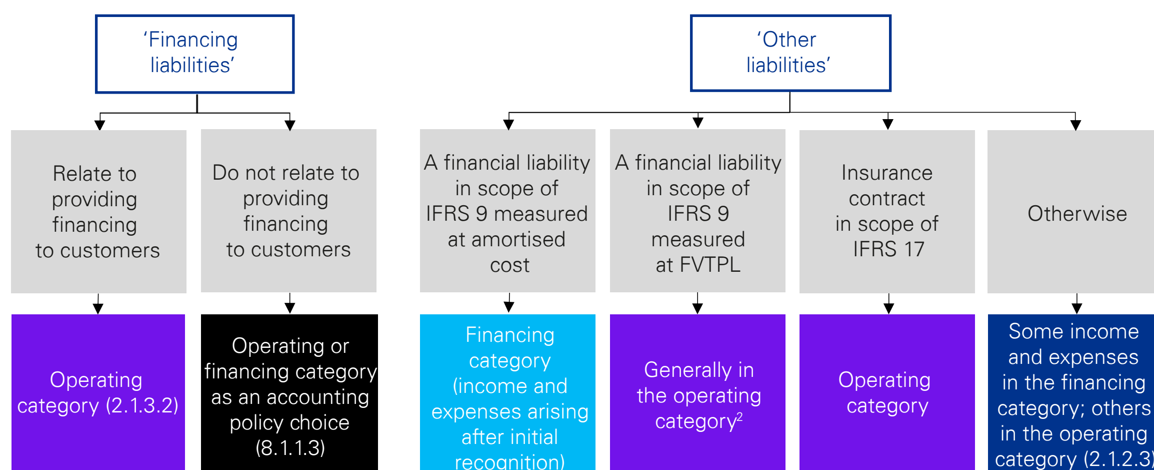
IFRS 18.62, B56-B57

Many banks issue hybrid contracts that include host liabilities and embedded derivatives. IFRS 18 provides specific requirements on how entities classify income and expenses from these hybrid contracts. If the embedded derivative is separated from the host, then a bank classifies the income and expenses from the host and the embedded derivative under the requirements that apply to a liability and a derivative respectively.

If the embedded derivative is not separated from the host liability and the hybrid contract arises from a transaction involving only the raising of finance (i.e. a 'financing liability'), then the bank applies the accounting policy choice available in 8.1.1.3, provided that the contract does not relate to providing financing to customers.

If the hybrid contract does not arise from such a transaction (i.e. an 'other liability'), then classification of the income and expenses will depend on whether the hybrid contract is classified as a financial liability in the scope of IFRS 9, as an insurance contract in the scope of IFRS 17 or as another item. As a result, some income and expenses are classified in the financing category and some in the operating category.

Income and expenses from hybrid contracts for banks when an embedded derivative is not separated from a host liability[1]



Notes:

[1] Under paragraph B57 of IFRS 18, this applies regardless of the reason why the entity does not separate the embedded derivative under IFRS 9.

[2] Generally classified in the operating category because interest expense is not recognised separately from changes in fair value.

8.1.1.5 Gains and losses on derivatives and hedging instruments

IFRS 18.B70-B76

Many banks enter into derivatives to manage identified risks. Under IFRS 18, classifying gains and losses on derivatives and hedging instruments into the income statement categories depends on whether they are designated as hedging instruments under IFRS 9 or are used to economically hedge risks. As part of providing financing to customers, banks typically hedge interest rate risk and foreign exchange risk – e.g. those risks arising from loans to customers and from 'financing liabilities' that relate to providing financing to customers. They classify gains and losses on these hedging instruments in the operating category.

For those 'financing liabilities' that are not related to providing financing to customers, a bank can choose to classify income and expenses arising from these liabilities in the operating or financing category (see 8.1.1.3). In this case, the bank classifies the gains and losses from derivatives used to manage the risks arising from these liabilities in the same category.

IFRS 18's requirements are summarised in the table below.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

<table>
<tr><th></th><th colspan="2">Purpose and hedging designation</th><th>Gains and losses on derivatives</th><th>Gains and losses on non-derivatives</th></tr>
<tr><td>IFRS 18.B70, B74-B75</td><td rowspan="2">Used for managing identified risks</td><td>Designated as a hedging instrument</td><td colspan="2">Classify in the same category as the income and expenses affected by the hedged risk(s).

However, if this involves grossing up gains and losses, then classify in the operating category. Grossing up of gains and losses might occur when a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in multiple categories of the income statement – e.g. a single derivative to manage foreign currency risk on interest revenue (classified in the operating category) and on interest expenses (classified in the financing category).</td></tr>
<tr><td>IFRS 18.B72</td><td>Not designated as a hedging instrument</td><td>Follow the same classification requirements for derivatives designated as a hedging instrument unless doing so involves undue cost or effort</td><td rowspan="2">Apply the requirements discussed in 2.1.2 to 2.1.6.</td></tr>
<tr><td>IFRS 18.B73</td><td colspan="2">Not used for managing identified risks</td><td>Typically, classify in the financing category if the derivative relates to a transaction that involves only the raising of finance. However, if the bank has made an accounting policy choice (see 8.1.1.3) to classify income and expenses from ‘financing liabilities’ in the operating category, then classify in the operating category.

Also, classify in the operating category if:
• the derivative relates to providing financing to customers; or
• the derivative does not relate to a transaction that involves only the raising of finance.</td></tr>
</table>

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.1.1.6 Income and expenses from investing in non-financial assets

IFRS 18.58

Under IFRS 18, entities that invest in non-financial assets as a main business activity classify income and expenses from those assets in the operating category rather than the investing category.

Can banks classify income and expenses from investing in non-financial assets in the operating category?

It depends. Some banks invest in commodities and other non-financial assets (e.g. carbon credits). A bank determines whether it invests in other non-financial assets as a main business activity by assessing an individual asset or a group of assets with shared characteristics. As such, a bank's conclusion as to whether investing in these assets is a main business activity may differ for different types of assets.

If a bank determines that it invests in non-financial assets or groups of non-financial assets as a main business activity, then it classifies income and expenses from these investments in the operating category. Otherwise, it classifies them in the investing category (see 2.1.1.2).

8.1.1.7 Income and expenses subtotals

IFRS 18 requires the following income and expenses subtotals to be presented.

- Operating profit or loss.
- Profit or loss before financing and income taxes*.
- Profit or loss.
- Total other comprehensive income.
- Total comprehensive income.

* There is an exception from presenting the subtotal 'Profit or loss before financing and income taxes', subject to the accounting policies applied. (see 8.1.1.3).

Entities are required to present additional subtotals in the income statement if it is necessary to provide a useful structured summary (see 2.3.2). Additional subtotals that banks might use include the following.

- Net interest income.
- Net fee and commission income.
- Total income or revenue.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.1.2 MPMs

18.117-125, B113-B142

The new requirements for MPMs may be particularly relevant for banks because they often include 'non-GAAP' performance measures in their annual reports and investor communications. Under IFRS 18, only subtotals of income and expenses are MPMs. Therefore, only some of these 'non-GAAP' performance measures will meet the definition of an MPM under IFRS 18 (see Section 3.1).

If a measure meets the definition of an MPM, then a bank is required to provide additional disclosures about the MPM in a single note to the financial statements (see Section 3.3). In that note it needs to describe each MPM, including why it provides useful information, and how it is calculated. It also needs to reconcile the MPM to the nearest common subtotal listed in IFRS 18 or other totals or subtotals required to be presented or disclosed by IFRS Accounting Standards.

In some cases, an MPM can also be presented on the face of the income statement (see Section 3.2).

Will all non-GAAP measures typically used by banks meet the definition of an MPM?

Not necessarily. Many non-GAAP measures used by banks may not be MPMs. This is because under IFRS 18, only subtotals of income or expenses are MPMs (see Section 3.1.3) and banks often use alternative performance measures based on balance sheet amounts (e.g. loan-to-deposit ratio and return on equity).

The following items are generally not considered MPMs under IFRS 18.

- Financial ratios, because these are not subtotals of income and expenses – e.g. return on tangible equity or cost-to-income ratio.
- Regulatory metrics that are not a subtotal of income and expenses – e.g. common equity tier 1 ratio and leverage ratio.
- Non-financial performance measures – e.g. customer satisfaction statistics and sustainability KPIs.
- Net interest income and net fee and commission income. These are common additional subtotals similar to gross profit and, therefore, are not MPMs.

A financial ratio is not an MPM because it is not a subtotal of income and expenses; however, the numerator or denominator of that ratio may meet the definition of an MPM.

Return on equity is a ratio commonly reported by banks as a key performance measure. The numerator in this ratio may be an MPM because some banks exclude non-recurring items.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2 Insurers

IFRS 18 specifies that income and expenses arising from insurance contracts, and income and expenses from issued investment contracts with participation features recognised applying IFRS 9, are included in the operating category. The main business activities of insurance companies (for all segments – e.g. life insurers, non-life insurers and reinsurers) typically involve investing in assets and might also include providing financing to customers (e.g. an insurer that issues mortgages). This means that some income and expenses that would otherwise be classified in the investing or financing category are included in the operating category. The new requirements regarding MPMs may be particularly relevant for insurers because they often include non-GAAP profit measures in management commentaries and investor presentations.

8.2.1 Income statement structure

An example income statement for an insurer that has a main business activity of investing in assets is shown below. See 8.2.5 for an illustrative example for a bancassurer.

New categories	Illustrative income statement Insurers that invest in assets as a main business activity		Reference	
Operating	Insurance revenue[1]	X	8.2.1.1	
Operating	Insurance service expenses[1]	(X)	8.2.1.1	
Operating	Net expenses from reinsurance contracts[1]	(X)	8.2.1.1	
Operating	**Insurance service result** [1]	X	8.2.1.6	Additional subtotals
Operating	Interest revenue calculated using the effective interest method	X		
Operating	Net gains on investments in associates and joint ventures measured at fair value[2]	X	8.2.1.1.1	
Operating	Other investment revenue	X		
Operating	Net impairment losses on financial assets	(X)		
Operating	**Investment result**	X	8.2.1.6	Additional subtotals
Operating	Net finance expenses from insurance contracts[1]	(X)	8.2.1.1	
Operating	Net finance income from reinsurance contracts[1]	X	8.2.1.1	
Operating	Movement in investment contract liabilities	(X)	8.2.1.1	
Operating	**Net financial result** [3]	X	8.2.1.6	Additional subtotals
Operating	Operating expenses not directly attributable to insurance contracts	(X)	8.2.1.5	
	Operating profit or loss	X		New subtotals
Investing	Share of profit or loss of equity-accounted investees	X	8.2.1.1.1	
	Profit or loss before financing and income taxes	X		New subtotals
Financing	Unwinding of discount on pension liabilities	(X)	2.1.2.3	
Financing	Interest expense on borrowings	(X)	2.1.2.3	
	Profit or loss before income tax	X		
Income tax	Income tax expense	(X)		
	Profit or loss from continuing operations	X		
Discontinued operation	Profit or loss from discontinued operation	X		
	Profit or loss	X		

Notes:

[1] Required line items related to IFRS 17 Insurance Contracts.

[2] This line item relates only to net gains on investments in associates and joint ventures that qualify for measurement at fair value under paragraph 18 of IAS 28.

[3] Calculated as the sum of the investment result plus/less net finance income/expenses from

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2.1.1 Requirements for income statement classification that are relevant for insurers

IFRS 17.80, 82, IFRS 18.47, 52, 64, BC196-197

IFRS 18 requires entities to classify their income and expenses into five categories (see Section 2.1). The operating category provides a complete picture of an entity's operations and includes income and expenses from an entity's main business activities. IFRS 18 assumes that any entity that issues insurance contracts will do so as a main business activity. All IFRS 17 income and expenses line items are therefore classified in the operating category. This also applies to the income and expenses arising from investment contracts with participating features recognised under IFRS 9. Under IFRS 18, the following line items, if applicable, are included in operating profit.

- Insurance revenue.
- Insurance service expenses.
- Insurance service result.
- Income and/or expenses from reinsurance contracts held.
- Insurance finance income or expense.
- Reinsurance finance income or expense.
- Income and expenses from investment contracts with participation features under IFRS 9.

IFRS 18.49-50

IFRS 18 includes specific provisions for entities whose main business activities include investing in assets and/or providing financing to customers. Insurers typically invest in assets as part of their main business activities and may, in some cases, also provide financing to customers. These entities classify certain income and expenses in the operating category, which would otherwise be classified in the investing or financing category.

8.2.1.1.1 Investments in associates and joint ventures

IFRS 18.55(b), BC123, 125

For entities that invest in associates and joint ventures as a main business activity and measure such an investment at fair value, the entity is required to classify the income and expenses from the investment in the operating category. This aims to address a presentation 'mismatch' that would arise if the 'net financial result' included in operating profit contained insurance finance income and expenses from related insurance or investment contract liabilities but not all of the associated investment income from the assets held to service those liabilities. If an investment in an associate or joint venture is measured under the equity method, then the income and expenses from that investment are classified in the investing category.

Can an insurer classify the income and expenses from its investments in associates and joint ventures in the operating category?

IAS 28.18, IFRS 18.C7, BC243

It depends. Paragraph 18 of IAS 28 permits insurers to choose to measure an investment in an associate or joint venture at fair value, instead of under the equity method, if the investment is held by or held indirectly through a mutual fund, unit trust or similar entities, including investment-linked insurance funds (e.g. a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features). This election allows insurers to eliminate or reduce accounting mismatches that arise between the measurement of insurance and investment contract liabilities and the investments underlying those liabilities.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

If an insurer invests in associates or joint ventures and holds them as underlying items for investment-linked contracts that it issues, then holding these investments may be considered a main business activity. However, only when the entity elects to measure at fair value an investment in an associate or joint venture that qualifies under paragraph 18 of IAS 28, can it classify the income and expenses from that investment in the operating category.

An entity is generally only permitted to make the election in paragraph 18 of IAS 28 when the investment is initially recognised. However, at the date of initial application of IFRS 18, an insurer eligible to apply paragraph 18 of IAS 28 may change its election and choose to measure additional eligible investments at fair value (see Section 7.2).

8.2.1.1.2 Investment properties

IFRS 18.53(c), 54, 58

Entities that invest in 'non-operating assets' (e.g. investment property) as a main business activity classify income and expenses from those assets in the operating category rather than the investing category (see 2.1.1.2).

Can an insurer classify the income and expenses from an investment property in the operating category?

It depends. For many insurers, investing in investment properties is an integral part of the main business activity of investing in assets. Certain income and expenses related to investment properties (e.g. rental income and fair value gains or losses) are included in the operating category only when the entity invests in assets as a main business activity.

If an entity determines that investing in investment property is not a main business activity, then it includes certain income and expenses from that asset in the investing category rather than the operating category.

8.2.1.2 Classifying income and expenses arising from hybrid contracts

IFRS 18.62, B56-B57

Many insurers issue hybrid contracts in which a host insurance contract contains an embedded derivative. IFRS 18 provides specific guidance on how entities classify income and expenses from hybrid contracts (see 2.1.4). For hybrid contracts issued by insurers, the embedded derivatives are generally not separated from the host insurance contract. This is because the embedded derivative and the host insurance contract are often closely related, meaning that the income and expenses are likely to be included in the operating category.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2.1.3 Foreign exchange differences

IFRS 18.B65

Under IFRS 18, foreign exchange differences recognised in the income statement are classified in the same category as the income and expenses that gave rise to them (see 2.1.6). This means that any foreign exchange differences recognised in respect of insurance contract transactions are classified in the operating category.

8.2.1.4 Gains and losses on derivatives and hedging instruments

IFRS 18.B70-B76

The classification of gains and losses on derivatives and hedging instruments depends on whether they are used to manage risks or are designated as hedging instruments under IFRS 9 (see 2.1.7). Many insurers apply hedge accounting to manage identified risks. This generally relates to investments and foreign currency exposures, meaning that in many cases, the income and expenses from the hedging instruments are classified in the operating category.

Some insurers have designated hedge accounting relationships for interest rate and inflation risks arising from insurance contracts. The gains or losses on these financial instruments are classified in the same category as the insurance contracts – i.e. the operating category.

Do these requirements apply to financial instruments used to apply the risk mitigation approach?

IFRS 17.B115-116, 18.B70, B72, B74-75

Yes. The requirements for classifying gains and losses on derivatives are relevant for insurers that:

- use these instruments to mitigate risks arising from insurance contracts with direct participation features; and
- apply the risk mitigation option under paragraph B115 of IFRS 17.

Applying the risk mitigation option indicates that an insurer is using derivatives or non-derivative financial assets measured at fair value through profit or loss to mitigate the financial risk related to certain aspects of issued insurance contracts. The gains and losses on the derivatives are classified in the operating category in line with the classification of income and expenses arising from the risk that is being managed – i.e. the risk arising from insurance contracts. Gains and losses on non-derivative financial assets are also classified in the operating category when investing in assets is a main business activity for the insurer.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2.1.5 Analysis of operating expenses

IFRS 17.103, 18.80, 81, 83

IFRS 18 permits operating expenses to be presented in the income statement either by nature, by function or on a mixed basis. If any operating expenses are presented by function, then an entity is required to disclose a qualitative description of the nature of those expenses and quantitative analyses of certain types of 'nature expenses' (see 2.2.2). This requirement is relevant for all insurers because insurance service expenses are considered a by-function presentation. Therefore, insurers need to disclose information about insurance service expenses by nature in addition to the disclosures required by IFRS 17 on explaining insurance service expenses. In addition, for each of these by-nature expense totals, insurers disclose the amount related to each line item in the operating category and a list of any line items outside the operating category that also include amounts relating to the total.

8.2.1.6 Income and expenses subtotals

IFRS 18.24, 69, 86, B123

IFRS 18 requires the following income and expenses subtotals to be presented.

- Operating profit or loss.
- Profit or loss before financing and income taxes*.
- Profit or loss.
- Total other comprehensive income.
- Total comprehensive income.

* There is an exception from presenting the subtotal 'Profit or loss before financing and income taxes' that is relevant for entities that have a main business activity of providing financing to customers, depending on the accounting policies applied. This may be relevant for bancassurers and potentially some insurers (see 2.3.1).

Entities are required to present additional subtotals in the income statement if it is necessary to provide a useful structured summary (see 2.3.2). Additional subtotals that all insurers might use include the following.

- Insurance service result.
- Net financial result (investment result plus/minus net finance income/expenses from (re)insurance contracts minus movement in investment contract liabilities).

In addition, bancassurers might also use the following subtotals.

- Net interest income.
- Net fee and commission income.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2.2 MPMs

IFRS 18.122-125

Insurers frequently report 'non-GAAP' performance measures in their annual reports and analyst presentations. Under IFRS 18, only subtotals of income and expenses are MPMs. Therefore, only some of these 'non-GAAP' performance measures will meet the definition of an MPM under IFRS 18 (see Section 3.1).

If a measure meets the definition of an MPM, then an entity is required to provide additional disclosures about the MPM (see Section 3.3). The entity needs to describe each MPM, including why it provides useful information and how it is calculated. The entity also needs to reconcile the MPM to the nearest common subtotal listed in IFRS 18 or other subtotals or totals required to be presented or disclosed by IFRS Accounting Standards.

In some cases, an MPM can also be presented on the face of the income statement (see Section 3.2).

Which non-GAAP measures used by insurers will meet the definition of an MPM?

IFRS 18.B116, B123

Many insurers currently report 'operating profit after tax' (OPAT) or a similar alternative performance measure to provide a consistent view of earnings from period to period. The calculation of this performance measure differs significantly between insurers. Many insurers' OPAT calculation begins with profit after tax as determined under IFRS Accounting Standards but is then adjusted to:

- exclude amounts determined under IFRS Accounting Standards – e.g. amortisation of intangibles, (un)realised investment gains/losses, the effects of changes in assumptions and methodology, and so-called 'extraordinary items'; and
- include non-GAAP amounts – e.g. normalised or long-term expected investment returns.

In many cases, such a measure will meet the definition of an MPM (see Section 3.1) because:

- it is generally reported in the front half of the annual report and in investor presentations (i.e. public communications outside the financial statements);
- it is communicated publicly, and it is presumed that it represents management's view of an aspect of the financial performance of the entity as a whole; and
- it is a subtotal of income and expenses but is not a required subtotal or a common income and expenses subtotal listed in IFRS 18. The adjustments made vary widely, including adding non-GAAP amounts. Therefore, the measure as a whole is unlikely to be a required subtotal or considered a common income and expenses subtotal listed in IFRS 18.

Insurers who currently name their alternative performance measure 'operating profit after tax' will need to rename the measure unless it faithfully represents only operating profit and the related tax effect as determined in accordance with IFRS 18.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The following items are generally not considered MPMs.

- So-called 'comprehensive equity', being a management-defined measure of shareholders' equity and the contractual service margin (CSM).
- Gross written premium or gross earned premium, because these are subtotals of income only.
- Regulatory ratios such as Solvency II and leverage or debt ratios. Financial ratios are not MPMs (see below). Further, the numerator and denominator of these ratios are combinations of balance sheet items and, therefore, are not subtotals of income and expenses.
- New business metrics (e.g. new business CSM), because these are not subtotals of income and expenses.
- Insurance service result and net financial result. These are common additional subtotals similar to gross profit and, therefore, are not MPMs.

Do financial ratios (e.g. the combined ratio) meet the definition of an MPM?

IFRS 18.B117

No, because a ratio is not a subtotal of income and expenses. However, the numerator or denominator of a ratio may meet the definition. Insurers commonly report 'combined ratios' and other similar ratios in respect of their non-life business in their annual reports or analyst presentations. The starting point for calculating the combined ratio is typically insurance service expenses divided by insurance revenue. However, some insurers adjust their insurance service expense or insurance revenue, which could mean that the numerator or the denominator itself becomes an MPM. For example, many insurers adjust the insurance service expense to include the reinsurance result such that it may become a subtotal of income and expenses. The numerator or denominator is an MPM if it would meet the definition were it not part of the ratio (see 3.1.1).

Other ratios commonly reported by insurers for which the numerator may be an MPM include:

- return on equity; and
- alternative EPS metrics (see 8.2.3).

8.2.3 Additional EPS disclosures

IAS.33.73B, 73C

Many insurers currently report alternative EPS using the alternative performance measures described in 8.2.2. However, they often report them in the front half of the annual report or in investor presentations, rather than in the financial statements. Under IFRS 18, insurers could disclose these additional EPS amounts in the notes to the financial statements if the alternative measure of earnings is a required subtotal, a common subtotal or an MPM (see Section 5.3). IAS 33 requires that the denominator in the additional EPS is calculated in the same way as for the basic and diluted EPS calculations. Similar to current IAS 33, if an entity discloses additional EPS amounts then it discloses these additional amounts per share with equal prominence and in the notes to the financial statements only – i.e. it is not permitted to present them in the primary financial statements.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

8.2.4 Aggregation and disaggregation

IFRS 18 enhances the guidance on grouping transactions and other events into line items presented in the primary financial statements and information disclosed in the notes (see Section 4.2). IFRS 18 also provides guidance on labelling and describing items in the primary financial statements (see Section 4.3). Many insurers currently present the line item 'other operating expenses' in the income statement. Labelling a line item as 'other' is permitted under IFRS 18; however, insurers will need to consider the new requirements to determine whether the line item's label is appropriately informative. In addition, insurers may need to consider whether items within other operating expenses need to be disaggregated based on characteristics that are not shared (dissimilar characteristics).

8.2.5 Illustrative example for bancassurers

A bancassurer generally has (at least) two main business activities, namely investing in assets and providing financing to customers.

IFRS 8.13, 18.B33, B36

Determining an entity's main business activities involves judgement but is based on fact rather than assertions (see 2.1.1). A reportable segment that comprises a single business activity generally indicates a main business activity. Bancassurers' insurance activities (often combined with other 'investing in assets' activities – e.g. some asset management activities) and banking activities may qualify as separate reportable segments. These bancassurers generally invest in assets and provide financing to customers as main business activities. Therefore, they classify the income and expenses associated with those activities in the operating category.

IFRS 18.9

There are multiple ways of presenting financial information in the income statement for a bancassurer that may be useful to users of financial statements. Below is an illustration of an income statement for a bancassurer with retail banking activities and insurance activities. In this illustration, the main business activities include providing financing for customers and investing in assets.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Category	Illustrative income statement Bancassurers that invest in assets and provide financing to customers as main business activities		Reference
Operating	Interest revenue	X	
	Interest expenses	(X)	
	Net interest income	X	8.2.1.6
	Fee and commission income	X	
	Fee and commission expense	(X)	
	Net fee and commission income	X	8.2.1.6
	Insurance revenue	X	8.2.1.1
	Insurance service expenses	(X)	8.2.1.1
	Net expenses from reinsurance contracts	(X)	8.2.1.1
	Insurance service result	X	8.2.1.6
	Net gains on investments in associates and joint ventures measured at fair value[1]	X	8.2.1.1.1
	Other net investment income	X	
	Net trading income	X	
	Credit impairment losses	(X)	
	Net finance expenses from insurance contracts	(X)	8.2.1.1
	Net finance income from reinsurance contracts	X	8.2.1.1
	Other operating expenses (not included above)		8.2.1.5
	Employee benefits	(X)	
	Depreciation and amortisation	(X)	
	Other expenses	(X)	
	Operating profit or loss	X	
Investing	Share of profit or loss of equity-accounted investees	X	8.2.1.1.1
	Profit or loss before financing and income tax[2]	X	
Financing	Interest expense not related to providing financing to customers	(X)	2.1.2.3
	Profit or loss before income tax	X	
Income tax	Income tax expense	(X)	
	Profit or loss from continuing operations	X	
Discontinued operation	Profit or loss from discontinued operation	X	
	Profit or loss	X	

New categories: Operating, Investing, Financing

Additional subtotals: Net interest income, Net fee and commission income, Insurance service result

New subtotals: Operating profit or loss, Profit or loss before financing and income tax

Notes:

[1] This line item relates only to net gains on investments in associates and joint ventures that qualify for measurement at fair value under paragraph 18 of IAS 28.

[2] Entities that classify all of the income and expenses from cash and cash equivalents and 'financing liabilities' in the operating category (see 2.1.3.1 and 2.1.3.2) do not present this subtotal. These entities might consider providing a subtotal 'operating profit or loss and income and expenses from investments accounted for under the equity method' to provide a useful structured summary under paragraph 73

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

Appendix

The below table includes key topics in IAS 1 that are carried forward to IFRS 18 or moved to other IFRS accounting standards without substantive changes.

Topics	Current paragraph references in IAS 1	Paragraph references in IFRS 18 or other IFRS accounting standards
Fair presentation and compliance with IFRS Accounting Standards	15–24	IAS 8.6A–J*
Going concern	25–26	IAS 8.6K–L
Accrual basis of accounting	27–28	IAS 8.6M–N
Offsetting	32–35	44–45, B27–B28
Frequency of reporting	36–37	28–29
Comparative information – minimum	38–38B	31–32, B13
Comparative information – additional	38C–D	B14–B15
Change in accounting policy, retrospective restatement or reclassification	40A–44	33–40
Consistency of presentation	45–46	30, B12
Identification of the financial statements	49–53	25–27, B10–B11
Current/non-current distinction	60–76B	96–97, 99–102, B90–B108
Share capital and other reserves	79–80	130–131
Statement of profit or loss and other comprehensive income	81A–81B	69, 76, 86, 87
Tax expenses	82(d)	75(a)(iv)
A single amount for the total of discontinued operations	82(ea)	75(a)(v)
Information to be presented in the other comprehensive income section	82A	88–89
Profit or loss for the period	88–89	46, B86
Other comprehensive income for the period	90–96	90–95, B88–B89
Information to be presented in statement of changes in equity	106	107
Information to be presented in statement of changes in equity or in the notes	106A–110	108–112
Statement of cash flows	111	3
Notes – structure	112–116	112–115
Disclosures of accounting policies	117–124	IAS 8.27A–I
Sources of estimation uncertainty	125–133	IAS 8.31A–I
Capital disclosures	134–136	126–129
Puttable financial instruments classified as equity	80A, 136A	IFRS 7.19A–B
Other disclosures	137–138	116,132

* The title of IAS 8 is changed to *Basis of Preparation of Financial Statements.*

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

List of examples

Title	Section
Example 1 – Interaction with operating segments	2.1.1
Example 2 – Assessment of specified main business activities in different sets of financial statements within a group	2.1.1.1
Example 3 – Classification of income and expenses from hybrid contracts	2.1.4
Example 4 – Grouping of operating expenses	4.2
Example 5 – Grouping of trade payables subject to a reverse factoring arrangement	4.2

List of illustrative income statements

Title	Section
Illustrative income statement for entities without specified main business activities	2
Illustrative income statement for retail and investment banks that provide financing to customers and invest in financial assets as main business activities	8.1.1.1
Illustrative income statement for insurers that invest in assets as a main business activity	8.2.1
Illustrative income statement for bancassurers that invest in assets and provide financing to customers as main business activities	8.2.5

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

This edition considers the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements* published by the IASB in April 2024.

Further analysis and interpretation will be needed for an entity to consider the impact of IFRS 18 in light of its own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards and interpretations themselves.

Acknowledgements

We would like to acknowledge the efforts of the following members of the KPMG International Standards Group, who were the principal authors of this publication.

Uni Choi, Kelly Coyne, Gina Desai, Beakal Desta, Madison Ji, Daisuke Masuda, Genevieve Naik, Bob Owel, India Preswick, Agnieszka Sekita and Chris Spall.

We would also like to thank the members of the KPMG global IFRS presentation topic team for their contribution.

Valerie Boissou	United States
Hans Hällefors	Sweden
Celine Hyun	Korea (Republic of)
Gabriela Kegalj (leader)	Canada
Wietse Koster (deputy leader)	The Netherlands
Shinya Mikami	Japan
Carlos Perez de Leon	Mexico
Ruchi Rastogi	India
Agnieszka Sekita	United Kingdom
Ko Sin	China
Pamela Taylor	United Kingdom
Alwyn Van Der Lith	South Africa
Nicolas Vigneron	France

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

kpmg.com/be/ifrs

Publication name: *Presentation and disclosure – IFRS 18*

Publication number: 137868

Publication date: June 2024

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit kpmg.com/governance.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

This publication contains copyright © material of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit www.ifrs.org.

Disclaimer: *To the extent permitted by applicable law, the IASB, the ISSB and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.*

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

'ISSB™' is a Trade Mark and 'IFRS®', 'IASB®', 'IFRIC®', 'IFRS for SMEs®', 'IAS®' and 'SIC®' are registered Trade Marks of the IFRS Foundation and are used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.