How companies communicate financial performance is changing

9 April 2024

Global IFRS Institute

Gabriela Kegalj
Partner, Department of Professional Practice, Audit
KPMG in Canada

"IFRS 18 brings three categories of income and expenses, two income statement subtotals and one single note on management performance measures. These, combined with enhanced disaggregation guidance, set the stage for better and more consistent information for users – and will affect all companies."

Gabriela Kegalj
KPMG global IFRS presentation leader

IFRS 18 aims to deliver more consistent, comparable and transparent information

Highlights

- **A more structured income statement**
- **MPMs – Disclosed and subject to audit**
- **Greater disaggregation of information**
- **Next steps**

The way companies communicate their financial performance is set to change.

Responding to investor calls for more relevant information, IFRS 18 *Presentation and Disclosure in Financial Statements*[1] will enable companies to tell their story better through their financial statements. Investors will also benefit from greater consistency of presentation in the income and cash flow statements, and more disaggregated information.

So what does this mean for companies' financial reporting? Essentially, companies' net profit will not change. What will change is how they present their results on the face of the income statement and disclose information in the notes to the financial statements. This includes disclosure of certain 'non-GAAP' measures – management performance measures (MPMs) – which will now form part of the audited financial statements.

IFRS 18 marks a step towards more connected reporting. Financial statements that include relevant and consistent information will afford users better information on companies' financial performance.

A more structured income statement

Under current IFRS® Accounting Standards, companies use different formats to present their results, making it difficult for investors to compare financial performance across companies.

IFRS 18 promotes a more structured income statement, as set out below. In particular, it introduces a newly defined 'operating profit' subtotal and a requirement for all income and expenses to be allocated between three new distinct categories based on a company's main business activities.

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

Income statement

General model (e.g. manufacturer without specified main business activities[1])

Operating[2]	Revenue	X
	Operating expenses (analysed by nature, function or both as appropriate)	(X)
	Operating profit	**X**
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**
Financing[2]	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities	(X)
	Profit before tax	**X**
	Income tax	(X)
	Profit for the year	**X**

1 Companies with specified main business activities of investing in assets (e.g. real estate 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 Companies providing financing to customers as a main business activity (e.g. banks) typically do not present this subtotal.

All companies are required to report the newly defined 'operating profit' subtotal – an important measure for investors' understanding of a company's operating results – i.e. investing and financing activities are specifically excluded. This means that the results of equity-accounted investees are no longer part of operating profit and are presented in the 'investing' category.

IFRS 18 also requires companies to analyse their operating expenses directly on the face of the income statement – either by nature, by function or using a mixed presentation. Under the new standard, this presentation provides a 'useful structured summary' of those expenses. If any items are presented by function on the face of the income statement (e.g. cost of sales), then a company provides more detailed disclosures about their nature.

MPMs – Disclosed and subject to audit

Companies often use 'non-GAAP' information to explain their financial performance because it allows them to tell their own story and provides investors with useful insight into a company's performance.

IFRS 18 now requires some of these 'non-GAAP' measures to be reported in the financial statements. It introduces a narrow definition for MPMs[2], requiring them to be:

- a subtotal of income and expenses;
- used in public communications outside the financial statements; and
- reflective of management's view of financial performance.

For each MPM presented, companies will need to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under IFRS Accounting Standards.

2. IFRS 18 defines management performance measures (MPMs); these measures are currently commonly known as non-GAAP measures, alternative performance measures (APMs) or key performance indicators (KPIs).

Greater disaggregation of information

To provide investors with better insight into financial performance, the new standard includes enhanced guidance on how companies group information in the financial statements. This includes guidance on whether information is included in the primary financial statements or is further disaggregated in the notes.

Companies are discouraged from labelling items as 'other' and will now be required to disclose more information if they continue to do so.

Next steps

Now is the time to get ready to report under the new standard, which is effective from 1 January 2027 and applies retrospectively. It is available for early adoption.

- Assess the impacts on your financial statements.
- Communicate the impacts with investors.
- Consider how the new requirements impact financial reporting systems and processes.
- Monitor any changes in the local reporting landscape.

Our high-level guide, available shortly, will help you understand the new accounting standard and assess the impacts for your company. And look out for our *First Impressions* publication, which will provide more information on the new standard, including our detailed insight and illustrative examples.

Publication name: *How companies communicate financial performance is changing*

Publication date: April 2024