

IFRS 18

PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

FR TEG-CFSS meeting

10 March 2025



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OBJECTIVES AND STRUCTURE




The objectives of the session are:

- To update member on the consultation process on the draft endorsement advice on IFRS 18 (DEA)
- In order to ensure a timely finalisation of the endorsement process - to gather any (potential) additional matters that members identified since the previous meeting (if any)

The structure of the session:

- Progress and timeline of the DEA consultation
- Reminder of the key topics discussed in the DEA
- Appendix: IFRS endorsement criteria and key topics considered by criteria

PROGRESS AND TIMELINE



After extensive outreach with a wide range of stakeholders including those from the financial sector EFRAG published its Draft Endorsement Advice (DEA) on IFRS 18 for consultation on 15 November 2024; EFRAG seeks stakeholders' comments on it by **26 March 2025**.

Final endorsement advice is expected in May 2025 allowing the European Commission sufficient time for the finalisation of the endorsement process before the end of 2025.

So far, limited number of CL on the DEA was received.

Considering the consultation timeline and EFRAG's due process, the EFRAG Secretariat calls upon the TEG-CFSS members and their network to provide additional feedback on the IFRS 18 DEA (if any) at their earliest convenience before the deadline.

KEY TOPICS DISCUSSED IN THE DEA



Cover letter:

- Reminds the process of developing IFRS 18 and its main provisions highlighting the balance and consensus between interests of various stakeholder groups and some key aspects from appendix 2 and appendix 3

Appendix 1: *Understanding the changes brought about by IFRS 18:*

- Provides background of the project and issues addressed
- Details the main requirements introduced by the Standard

Appendix 2: *Technical assessment of IFRS 18 against the endorsement criteria:*

- Presents analysis of the Standard against technical endorsement criteria.
- Addresses specific considerations raised during EFRAG outreach activities including, but not limited to:
 - Classification of income and expenses from equity-accounted investments
 - Classification of interest expense from other liabilities in the financing category
 - Assessment of the entity's main business activities and presentation in the statement of profit of loss
 - Analysis of expenses by nature when presenting by function
 - Management-defined performance measures
 - Limited changes to the statement of cash flows

KEY TOPICS DISCUSSED IN THE DEA




Appendix 3 - Assessment of European public good:


Part 1 – Cost-benefits assessment:

- Detailed desktop analysis covering 45 entities including the banking and insurance industry (as requested by the EFRAG FRB in its May 2024 session), highlighting that:
 - implementation costs might be significant for some companies and will depend on current practices, systems, processes and business model
 - mitigation solutions offered by IASB to address the issues raised by the industry may result in additional costs and may not fully address the issue
 - on-going costs are expected to not be significant
 - benefits for users are expected to be significant and to have on-going effects

Part 2 – Effects on European economy:

- Comparison with US GAAP in order to assess potential effects on competitiveness, financial stability and economic growth
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QUESTIONS TO FR TEG-CFSS MEMBERS



Did you or your constituents identify any additional challenges or matters to be considered in the endorsement advice since the publication of the DEA?

Is there any additional feedback to be incorporated in the final endorsement advice for the key topics already identified and raised in the DEA?



Appendix:
IFRS ENDORSEMENT
CRITERIA and KEY TOPICS
CONSIDERED BY CRITERIA

IFRS ENDORSEMENT CRITERIA (reminder)

IFRS 18 was published in April 2024 and will be effective for annual reporting periods beginning on or after 1 January 2027, with earlier application being permitted, subject to the adoption in the EU.

[Regulation \(EC\) No 1606/2002](#) (IAS Regulation) establishes the criteria for the IFRS Accounting Standards to be adopted in the EU.

Technical endorsement criteria

- Relevance
- Reliability including prudence
- Comparability
- Understandability
- True and Fair view

European public good criteria

- Potential effect on EU economy (financial stability, competitiveness)
- Potential effects on stakeholders
- Costs and benefits analysis

Other criteria

- No other criteria were requested by the EC

IFRS ENDORSEMENT CRITERIA (reminder)

- **Relevance** – information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.
- **Reliability** – information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost. There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- **Comparability** - the notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

IFRS ENDORSEMENT CRITERIA (reminder)

- **Understandability** - the notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence. Further, in assessing whether the information resulting from the application of a Standard is understandable, EFRAG considers whether that information will be unduly complex.
- **True and Fair view** – a Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:
 - a) does not lead to unavoidable distortions or significant omissions in the representation of that entity’s assets, liabilities, financial position and profit or loss; and
 - b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity’s assets, liabilities, financial position and profit or loss.

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Categories and subtotals

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Classification of income and expenses arising from equity-accounted investments	P	Reduced for Insurance sectors, issues for the Banking sector and some corporates. Many entities within these sectors consider such investments as part of the operating activity.	Reduced as classification driven by measurement method vs business model. Possibility to reconsider measuring at FV through PL for investment entities, however not all entities will be able to change to FV option based on the IAS 28 scope restrictions	Reduced especially for banks and insurance sectors – similar investments classified differently based on measurement method reducing comparability	Reduced especially for Banks and insurance sectors. The insurance industry claims that they might end up with a negative operating result (mismatch of presentation of insurance costs and related investment).	Additional cost associated with mitigating options (re-assessment of IAS 28, MPMs).
	U	Improved, Definition of operating avoids mix of gross and net result; Users are against sector-specific requirements, information which investments are related to the operating business can be provided in the notes or management report. Operating should only include results over which the entity has control. FVTPL measurement is considered relevant as it provides the FV information that the users are interested in	Improved: Providing picture of operating activities not “polluted” by post-tax results of companies that are not controlled. The classification as operating activities is judgemental and therefore "completeness" of operating would be questionable. Related information could be provided in addition (notes, management report).	Improved within the sector and cross-sectors by requiring similar presentation within the investing category; by, defining categories and sub-totals and not mixing pre-and post-tax result. Additional information can be provided to improve comparability for similar investments with different measurement method and to ensure comparability with peers.	Overall improved, Users are against sector-specific requirements despite understandable arguments from banks and insurance companies. As the treatment is defined for all entities the issue will be known and can be explained. Investors treat equity investments separately and differently from the parent entity as those are not controlled	Increased, is a benefit having defined homogeneous categories and sub-totals within and across industries

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Categories and subtotals

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Assessment of the entity's main business activities (conglomerates)	P	Mixed views. Assessment of the main business activity at the reporting entity level may differ from the assessment done at the sub-consolidation or a subsidiary level. Conglomerates see application challenges	No impact	Assessment is judgmental, however additional guidance included in IFRS 18 compared to IAS 1 is beneficial and is expected to improve the comparability. Complexity for conglomerates.	Mixed views. Articulation with IFRS 8 Segment reporting may be complex, especially when considering different reporting entity levels	Additional cost related to the assessment of the main business activity at each reporting entity level
	U	No major impacts compared to IAS 1 currently in place. Different activities are generally analysed separately by the users and are expected to be analysed separately under IFRS 18 anyway. Additional guidance and requirements included in IFRS 18 (roles of FS and notes, guidance on aggregation and disaggregation of information, concept of useful structured summary, requirements on MPMs) are seen as an improvement which would help with the analysis of conglomerates' financial statements	No impact	Assessment of the main business activity is judgmental, however additional guidance compared to IAS 1 is an improvement (useful structure summary, roles of FS and notes, aggregation and disaggregation etc.)	Improved when applying the concept of useful structured summary	Overall, enhanced guidance compared to IAS 1 should lead to increased benefits, albeit limited

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Categories and subtotals

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understand Ability	Cost/Benefit balance
Classification of interest expenses from other liabilities (not involving the raising of finance) in the financing category	P	Reduced, these interest expenses are often considered part of operating results of an entity (ex. lease liability, defined benefit liability).	No impact	Reduced. Some mentioned: when leasing is offered instead of remuneration for employees it should be treated similar to other remuneration	Reduced, these expenses are often considered part of operating results of an entity	Additional cost for Insurance Industry (IT systems aligned on IFRS 17 requirements)
	U	Improved, these expenses are considered financing by users (remuneration of the use of external capital, remuneration of time value of money). Less relevant for financial institutions *	No impact	Improved, similar treatment across sectors	Improved, these expenses are considered financing by users (remuneration for the use of external capital)	Improved benefits by providing clear and homogeneous structure of PL

* For financial institutions, classification of interest expenses on lease liabilities and pension liabilities outside of the operating result (contrary to interest expenses on all other financial liabilities which are classified in operating activities) is less relevant as it may not reflect banks' holistic management of interest rate risk which is part of their main business activity.

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Management-defined Performance Measures

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Scoping and rebuttable presumption	P	Mixed views, performance metrics were disclosed previously and are not expected to change as such	Improved, information will be audited	Improved, additional information will be provided allowing comparability	Mixed views, used with or without prominence is highly judgmental, only P&L related metrics are in scope,	Increased cost all industries. Additional cost for Financial and Insurance sector to rebut the presumption for metrics required by regulation and not considered MPMs by entity
	U	Improved, additional information will be provided, in a single note	Improved, information will be audited	Improved, additional information will be provided allowing comparability	Improved, additional information will be provided	Benefit for the users (all metrics in a single note, details of the calculation)
Reconciliation, including NCI and Income Tax effect	P	Mixed views, information was not requested by users in the past	Mixed views for tax: the information content is questionable due to the simplification for taxes; Overall -Improved, information will be audited		Mixed views, complex presentation may reduce understandability, most directly comparable subtotal posing practical challenges	Increased cost for all industries. Cost relief provided for tax effects but not NCI
	U	Improved, additional information will be provided, in a single note	Improved, information will be audited	Improved, additional information will be provided allowing comparability	Improved, additional information will be provided allowing comparability	Increased benefit - Reconciliation and effects on tax and NCI provide additional very important information for users

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Grouping of information

Users (U) and Preparers (P) views	Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Analysis of expenses by nature when presenting by function for: 1. depreciation 2. amortisation 3. employee benefits 4. impairment losses and reversals 5. write downs and their reversals of inventory	P Questionable – presentation by function is well established internationally – why the need for additional information? Reduced for Insurance industry*	Reduced due to the estimation involved (possibility to provide the total amount of cost and not only expense amount which was accounted for in PL (i.e. including capitalised cost))	Questionable due to the possibility to estimate and due to issues with the systems (nature of costs might change over different levels within the entity). Consolidation processes established normally only for by function.	Questionable es	Increased cost for all industries presenting by function or having mixed presentation. Additional cost for the Insurance sector* and Banking sector **
	U Improved – deemed helpful for cash flow projections. Defined five expense line items selected for the analysis are deemed the most relevant for users to allow better analysis of the financial statements (acceptable compromise); regret that cost of sales were not defined	Overall improved even if total cost may be presented (including expense amount accounted for in PL and capitalised amount accounted for in BS)	Improved, allowing better comparability between the entities for the line items disclosed considering the existing diversity in practice highlighted by users.	Overall improved, but potential challenges in reconciling cost amounts disclosed in the notes to the expense amounts presented in the P&L amounts were noted.	Improved, transparency of the information is enhanced (acceptable compromise) Appreciated to provide information even for mixed presentation

* Insurance industry argument that IFRS 17 requirements do not leave a choice to present by nature as majority of the P&L line items are defined by IFRS 17 (i.e. insurance service cost etc). Another concern was raised on the split between expenses attributable to the insurance expense vs non-attributable – such a split would be complex, costly and many entities do the split based on the allocation key, therefore subject to the estimation.

** Banking sector needs to provide additional reconciliations in order to comply with the regulatory requirements (ex. presentation of the PL based on the country-imposed or regulator-imposed template) and would have additional costs as those reconciliations / disclosures would need to be adjusted to align with IFRS 18 new PL presentation and notes.

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Grouping of information

Users (U) and Preparers (P) views	Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Aggregation and disaggregation principle and concept of “useful structured summary”	P Improved, additional subtotals are allowed to meet the objectives of the financial statements and allowing an entity to present its PL using the structure which best reflects its activity (notwithstanding defined categories and subtotals)	Question was raised whether it allows to condense information	Overall improved, however the structure (notwithstanding defined subtotals) can vary	Expected to be improved as entity is able to present its PL using the structure which best reflects its activity (as long as required categories and defined subtotals are presented)	Helpful to bring the right focus into the financial reporting. Appreciated clarification there is no need to present defined line items within the PL when not material or deemed not relevant for an entity
	U Overall considered helpful to focus on the important information, however certain concerns on the possibility to have very condensed presentation on the face of PL, which is expected to be compensated by additional disclosures within the notes. Request to include in the endorsement advice a request to re-assess the concept during the upcoming PIR.	Overall improved, concerns on the possibility to have very condensed presentation should be mitigated by aggregation / disaggregation guidance and additional disclosures in the notes.	No significant impact compared to IAS 1 noted	Expected to be improved overall considering guidance on roles of the FS and notes, aggregation and disaggregation.	Expected to be improved as entities would present more useful information by applying enhanced guidance to determine where and how to present and disclose information in the FS and the level of detail required. Some expressed concerns on the possibility that the concept might be used to justify a very condensed presentation

ENDORSEMENT CRITERIA ANALYSIS (reminder)

Other changes & transition

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Restatement of any comparative period	P	Improved in regard to the quality of information provided and considering impacts on the audit opinion		Improved	Improved in regard to the quality of information provided, homogeneous information for all periods presented	Increased cost for any additional comparative period presented
	U	Improved in regard to the quality of information provided		Improved comparability with previous periods (only way to analyse developments)	Improved as it provides homogeneous information for all periods presented under IFRS 18	Improved benefits by having comparative periods restated
FV option under IAS 28.18 – different interpretation of IAS 28.18 and increased volatility in the P&L	P	Mixed views, diversity in practice noted, limited applicability of FV option for Financial and Insurance companies		Mixed views, diversity in practice, assessment is driven by the criteria in IAS 28.18 instead of driven by the assessment of the business model		Increased costs associated with the re-assessment of applicability of IAS 28 or fair value measurement
	U	General support for the option provided as users usually estimate the FV of those investments separately. Increased volatility in the P&L is not a relevant factor to prevent specific classification requirements		No significant impact specific to the issue. Comments addressed in section dedicated to equity accounted for investments	No significant impact specific to the issue. Comments addressed in section dedicated to equity accounted for investments	

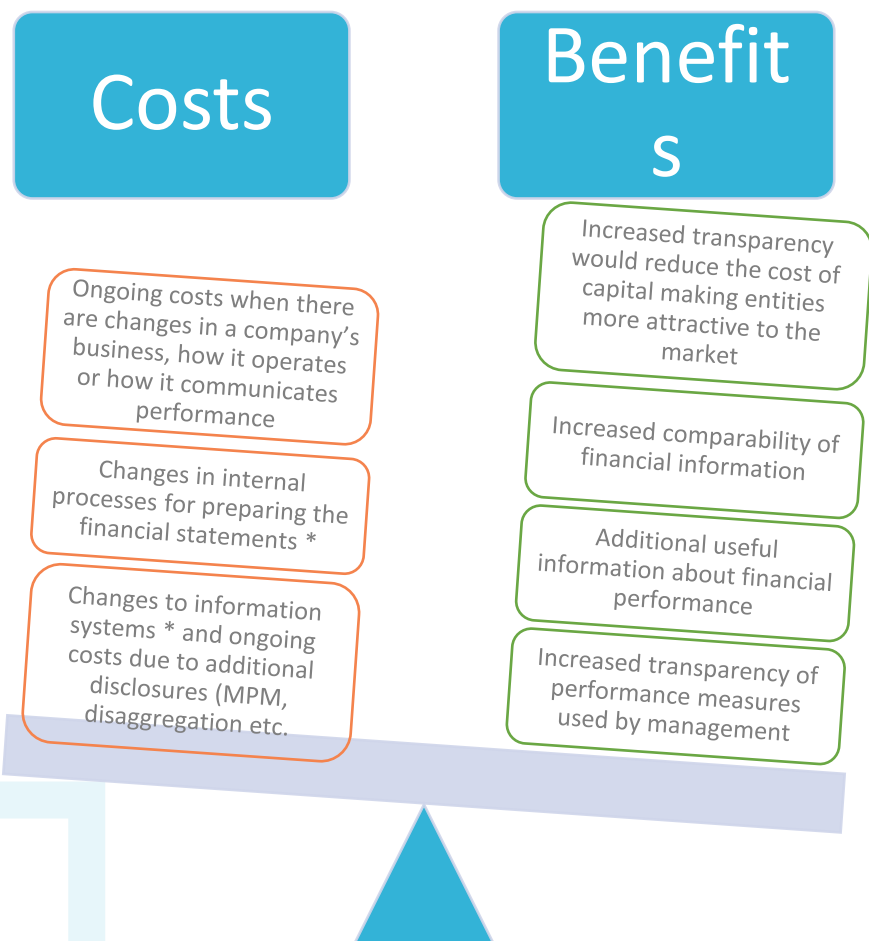
ENDORSEMENT CRITERIA ANALYSIS (reminder)

Other changes & transition

Users (U) and Preparers (P) views		Relevance	Reliability	Comparability	Understandability	Cost/Benefit balance
Limited changes to cash flow statement	P			Improved, reducing diversity in practice (by limiting accounting policy choice)	Mixed views, risk of misleading related to the same labelling of categories in the statement of CF and PL	May induce costs related to changes necessary in the IT systems
	U			Improved, reducing diversity in practice (by limiting accounting policy choice)	Mixed views, risk of misleading related to the same labelling of categories in the statement of CF and PL	Overall improved, although some additional aspects should be reconsidered by the IASB in the future

PRELIMINARY COST-BENEFIT ANALYSIS OF IFRS 18 REQUIREMENTS

(reminder)



* Banking and insurance sector – reconciliation to regulators-imposed structure as extra cost

COST MITIGATIONS IN IFRS 18

- **Reliefs for undue cost** or effort for classification in the statement of profit or loss of:
 - gains or losses on derivatives not designated as hedging instruments applying IFRS 9 *Financial Instruments*; and
 - foreign exchange differences.
- **Accounting policy choice** for companies that provide financing to customers as a main business activity
- **Equity-accounted investments**
 - introduction of a specified subtotal “operating profit or loss and all income and expenses from investments accounted for using the equity method”, which is not MPM
 - option to change measurement method at transition by applying IAS 28.18.
- **Disclosure of operating expenses by nature**
 - limiting the requirement to disclose specified expenses by nature to five
 - amounts disclosed for nature expenses may be the cost incurred for the period
- MPMs – Scoping → **Rebuttable presumption** in the definition of MPMs
- MPMs – reconciliation → **Simplified approach** to calculating income tax effects for each reconciling item disclosed in MPM reconciliations

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