IFRS 18

PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS

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EFRAG
Financial reporting

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IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

CLASSIFICATION OF INCOME AND EXPENSES ARISING FOR EQUITY-ACCOUNTED INVESTMENTS IN THE INVESTING CATEGORY

PREPARERS FROM INSURANCE INDUSTRY:

Results related to the insurance contracts should be within operating category to avoid mismatch with contracts-related expenses.

Some classification will be influenced by accounting policy choice and not differences in business models.

Application of IAS 28 upon transition will not be possible in some circumstances based on the IAS 28 scope.

USERS:

Disagreeing with providing industry-specific exception. For the insurance industry acknowledged importance of distinction between investments that are at the service of insurance liabilities and the others.

ENDORSEMENT CONSIDERATIONS:

- Compromise through the introduction of a specified subtotal “operating profit or loss and income and expenses from investments accounted for using the equity method”, which is not MPM.
- Possibility to reconsider the application of IAS 28 upon transition.
- Possibility to present additional metrics within MPM section of the financial statement (subject to MPM requirements).

IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

ANALYSIS OF EXPENSES BY NATURE WHEN PRESENTING BY FUNCTION

PREPARERS: concerns about the costs for providing such a disclosure.

IASB PROPOSED COST MITIGATING SOLUTION: limit to 5 categories & the amounts disclosed are not required to be expense amounts (i.e., it could include the amount capitalised).

USERS: supportive of the requirement to disclose by nature when presenting by function. Concerns about IASB's proposed solution which will not allow the reconciliation to the P&L.

ENDORSEMENT CONSIDERATIONS:

- Cost mitigating solution with positive impact on the cost/benefit criteria.
- Improved comparability of the information (transparency), however understandability might be impaired by the presentation of total cost amount (not only expense amounts).
- Additional cost foreseen by the Insurance Industry who just changed its IT systems to align with IFRS 17.

IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

Assessment of the entity's main business activities (conglomerates)

PREPARERS: For conglomerates, determining the entity's main business activities at the reporting-entity level will be complex and might be costly. The classification might change over the different levels of a group (thus presentation of income and expenses will be different between a subsidiary and the parent)

USERS: Overall supportive, the requirements do not deviate from IAS 1 guidance currently in place. Various activities are analysed separately

ENDORSEMENT CONSIDERATIONS :

- Assessment of the main business activity is judgmental, however additional guidance compared to IAS 1 is an improvement.
- Segment reporting may be complex, considering different reporting entity levels.
- Other requirements in IFRS 18 are expected to further guide the entities (concept of useful structured summary, guidance on the roles of PFS and notes ...)

IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

MPMS:
SCOPING AND REBUTTABLE PRESUMPTION

- Highly regulated entities raised concerns on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes;
- Used with or without prominence is a highly judgemental concept. Additional clarifications included only in the Basis for Conclusions cannot be enforced;
- Practical challenges in determining which is the most directly comparable subtotal or total for the reconciliation (ex. “net debt cost”)

MPMS:
TAX EFFECT AND EFFECT ON NON-CONTROLLING INTEREST FOR EACH RECONCILING ITEM

- May result in a complex presentation, particularly if an entity also presents by segment;
- Simplified approach was introduced for the calculation of the tax effects (but may lead to diversity and loss of relevant information). Calculation of the effect on non-controlling interest (NCI) was not addressed by IASB and remains costly and burdensome.

IFRS 18 - KEY TOPICS FOR THE ENDORSEMENT PROCESS

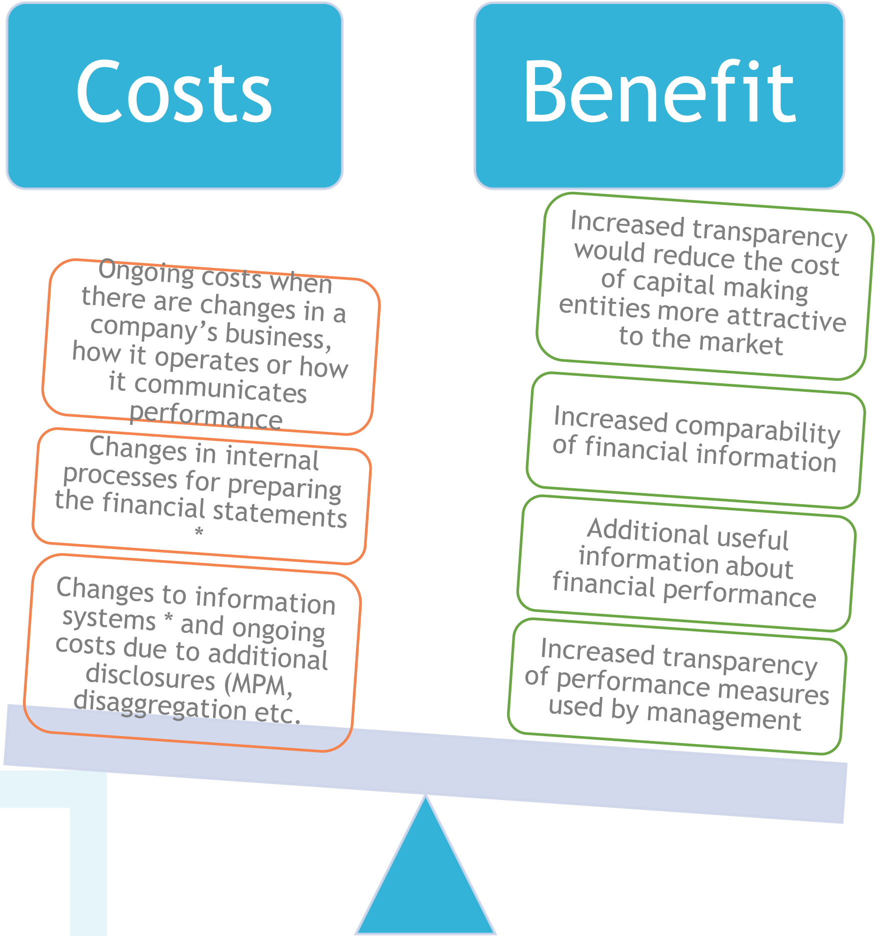
<ins>DEFINITION OF THE FINANCING CATEGORY</ins>, specifically for the financial institutions. Classification of income and expenses from liabilities into the financing category, when the underlying liabilities are not of the financial nature

Examples raised are interest expense on leases

<ins>TRANSITION REQUIREMENTS</ins>, specifically to the restatement of the comparative periods. The concern related to the cost of the restatement for the entities who are required to provide more than one comparative periods.

=>> no transition relief provided

PRELIMINARY COST-BENEFIT ANALYSIS OF IFRS 18 REQUIREMENTS



* 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