EARLY IMPRESSIONS

IFRS 18, Presentation and Disclosure in Financial Statements

March 2024

Foreword

The International Accounting Standards Board (IASB) has been diligently addressing concerns raised by investors regarding the comparability and transparency of reporting entities' income statements. Notably, inconsistencies in financial performance disclosure have led to challenges in assessing the true financial health of entities operating within similar sectors. To address this matter, the IASB initiated a comprehensive project to replace the existing IAS 1 standard with the upcoming IFRS 18, titled "Presentation and Disclosure in Financial Statements."

The changes expected from IFRS 18 will impact how companies present and disclose information, improve the quality of information available to stakeholders, and broaden the scope of information subject to assurance and enforcement.

Our perspective on these changes underscores the importance of standardizing financial reporting practices and enhancing stakeholder transparency. While these adjustments may pose immediate implementation challenges for reporting entities, we believe they will ultimately lead to greater comparability and understanding of financial performance.

We sincerely hope you find the enclosed publication informative.

We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you,
For Uniqus Consultech

Sandip Khetan

Co-Founder and Global Head,
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Background

The IASB has been receiving feedback from investors that the comparability of reporting entities' income statements was reduced due to inconsistencies in how the financial performance was being disclosed. For example, two entities may have similar operations in a similar sector, however, they may be presenting "operating profit" in the statement of profit & loss in a different manner, as currently there is no specific requirement to present operating profit sub- total in IAS 1, Presentation of Financial Statements.

For example:

Example 1 – Company A's Annual report for the year ended December 31, 2023

Group income statement

Particulars		$ million
	Note	2023
Sales and other operating revenues	6	210,130
Earnings from joint ventures - after interest and tax	76	67
Earnings from associates - after interest and tax	17	831
Interest and other income	7	1,635
Gains on sale of businesses and fixed assets	4	369
Total revenues and other income		**213,032**
Purchases	79	119,307
Production and manufacturing expenses		25,044
Production and similar taxes	5	1,779
Depreciation, depletion and amortization	5	15,928
Net impairment and losses on sale of businesses and fixed assets	4	5,857
Exploration expense	8	997
Distribution and administration expenses		16,772
Profit (loss) before interest and taxation		**27,348**

Finance costs	7	3,840
Net finance (income) expense relating to pensions and other post-retirement benefits	24	(241)
Profit (loss) before taxation		**23,749**
Taxation	9	7,869
Profit (loss) for the year		**15,880**

Extract of Company B's Annual report or the year ended March 31, 2023

Consolidated Statement of Comprehensive Income

Particulars	Note	(US$ million)		
		Before Special Items	Special Items (Note 6)	Total
Revenue	5	18,141	142	18,283
Cost of sales		(14,178)	(259)	(14,437)
Gross profit		**3,963**	**(117)**	**3,846**
Other operating income		239		239
Distribution costs		(476)		(476)
Administrative expenses		(530)		(530)
Impairment (charge)/ reversal [net]	6		(61)	(61)
Operating profit/ (loss)		**3,196**	**(178)**	**3,018**
Investment revenue	7	251		251
Finance costs	8	(1,558)		(1,558)
Other gains and (losses) [net]	9	(79)		(79)
Profit/ (Loss) before taxation (a)		**1,810**	**(178)**	**1,632**
Net (expense)/tax credit (b)	11	(894)	100	(794)
Profit/ (Loss) for the year (a+b)		**916**	**(78)**	**838**
Attributable to:				
Equity holders of the parent		49	(54)	(5)
Non-controlling interests		867	(24)	843
Profit/ (Loss) for the year		**916**	**(78)**	**838**

Extract of Company C's Annual report for the year ended December 31, 2023

Consolidated Statement of Income

Particulars	Note	$ million
Revenue	7	316,620
Share of profit of joint ventures and associates	13	3,725
Interest and other income	8	2,838
Total revenue and other income		**323,183**
Purchases		212,883
Production and manufacturing expenses	7	25,240
Selling, distribution and administrative expenses	7	13,433
Research and development	7	1,287
Exploration	7	1,750
Depreciation, depletion and amortization	7	31,290
Interest expense	9	4,673
Total expenditure		**290,556**
Income before taxation		**32,627**
Taxation charge	22	12,991
Income for the period	7	**19,636**
Income attributable to non-controlling interest	7	277
Income attributable to Shell plc shareholders	7	**19,359**
Basic earnings per share ($)	30	2.88
Diluted earnings per share ($)	30	2.85

We have presented the above extracts of the statement of profit & loss of three entities which have similar operation in a similar sector (Oil & Gas) i.e. Entity A, Entity B and Entity C and noted that all three entities have adopted different practices to present the operating profit in statement of profit & loss. Entity A and Entity B have not specifically presented the line item of operating profit as it is not specifically required by IAS 1 as discussed above.

In response to these concerns, the IASB undertook a project to replace IAS 1 with a new IFRS Accounting Standard, i.e., IFRS 18, Presentation and Disclosure in the Financial Statements, to increase the comparability of financial performance presented by entities. This Standard is expected to enhance the financial statement presentation and disclosure requirements and replace IAS 1—Presentation of Financial Statements, with proposed amendments to other standards.

While the final text of IFRS 18 is still not available, the IASB staff papers and decision summaries published by the IASB set out the conclusions reached and therefore enable the fundamental requirements of IFRS 18 to be reasonably understood.

This Early Impressions summarizes the key changes of the proposed Standard.

Transition and effective date

The IASB is expected to issue IFRS 18 in the first half of 2024, which will be effective for annual reporting on or after January 01, 2027, with restatement to the comparative period presented.

- Standard to be issued in first half of 2024
- Guidance and implementation question to be issued in 2025 and early/mid 2026
- Effective from January 01, 2027
- Earliest Comparative Period Impacted January 01, 2025

What are the proposed changes

- New required subtotals in the statement of profit & loss, including operating profit.
- Enhanced requirements on grouping of information (aggregation and disaggregation).
- Disclosures about Management defined Performance Measures (MPMs).

Each of the above changes have been explained in detail in the latter part of this publication.

What will be the impact of the proposed changes

The proposed changes are expected to have the following implications:

- How a company presents and discloses information.
- The quality of information, including digital information, available to the investors.
- The scope of information subject to assurance by auditors and enforcement by regulators.

Proposed changes explained in detail

New required subtotals in statement of profit & loss, including operating profit

Under IAS 1, there is currently no requirement to classify income and expenses into 'classes' or 'categories', which leads to difficulty in comparing financial performance since a reporting entity's statement of profit or loss varies in content and structure. To enhance consistency and to permit consistent line item and sub-total presentation (see below) we expect to see changes in the way income and expenses are classified in statement of profit or loss.

IFRS 18 will require income and expenses to be classified into five categories:

- Investing
- Financing
- Income tax
- Discontinued operations
- Operating (this is a residual category if income and expenses are not classified into any of the above categories).

Further, IFRS 18 will require two new subtotals to enable analysis i.e.:

- Operating profit
- Profit before financing and tax

It should be noted that there is no explicit alignment between the investing, financing, and operating categories stated above for the statement of profit or loss and the corresponding categories in the statement of cash flows as required by IAS 7 Statement of Cash Flows. However, they may be classified similarly for both statements in many cases.

The classification of income and expenses may also not be identical for all entities because IFRS 18 will require entities to assess their 'main business activities.' For example, a manufacturer investing excess cash in publicly traded shares is not a main business activity, and it will likely classify any income received under the investing category. Contrast this with a bank actively trading a portfolio of publicly traded shares. This may be a main business activity for the bank, and it is likely to classify such income under 'Operating.'

Statement of profit & loss

Particulars	$ million
Revenue	Operating
Cost of goods sold	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairmet loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit before tax	
Income tax expense	
Profit for the year	

Enhanced requirements on grouping of information (aggregation and disaggregation),

To address investors' concern that companies do not provide detailed information or important information is obscured from financial statements, IFRS 18 proposes to expand the requirements for labeling, aggregation, and disaggregation as follows:

- The purpose of disaggregation should be explained more clearly in financial statements.
- Entities must be transparent about the meaning of the terms used and the methods applied to the disaggregation.
- The items shall be disaggregated if the resulting disaggregated information is material.
- IFRS 18 requires disclosures about items labeled as 'others.'
- Require an entity to use the 'other' label only if it cannot find a more informative label.

Disclosures about Management defined Performance Measures (MPMs)

Entities may disclose MPMs outside the financial statements to communicate management's view of an aspect of the entity's financial performance. These MPMs are often based on a total or sub-total required by IFRS Accounting Standards with adjustments made. For example:

- Earnings before interest, taxes, depreciation, and amortization (EBITDA) or
- Operating profit excluding non-recurring items (e.g., operating profit excluding the effect of a natural disaster); or
- Free Cash flow or return on equity.

Investors find MPMs insightful, but they have concerns about a lack of transparency on how they have been calculated.

IFRS 18 has tentatively proposed that an entity will be required to disclose MPMs in a single note to the financial statements, explaining why the MPMs are reported with any changes to MPMs and not including disclosures about MPMs in the financial statement by reference to other documents.

Uniqus' perspective

Through this upcoming standard, the IASB has taken a significant step to streamline financial reporting across the reporting entities and providing greater insight to the stakeholders with transparency in reporting.

IFRS 18 will improve the comparability of financial performance between the entities as entities will publish the financial statements on the same categories provided by IFRS 18, including defining the MPMs and categories/subtotal in the statement of profit or loss.

To address the requirements of IFRS 18, the reporting entities may need to adjust their accounting systems to appropriately 'tag' and categorize income and expenses into the new IFRS 18 categories. This process may be complex for groups with diverse operations (various main business activities) and multiple reporting systems.

Entities may also need to put in place the process and controls for how they aggregate and, disaggregate, and label information based on the revised requirement as per IFRS 18.

Entities will also need to introduce the process and controls for identifying MPMs and determining the reporting requirement as per IFRS 18. We also draw reference to Uniqus Point of View on Use of non-GAAP measures.

IFRS 18 will lead to changes in presentation of statements of profit & loss (major tweaks), statements of cash flow (minor tweaks), and notes to financial statements (major tweaks). The extent of change will be based on an entities sector of operation, existing reporting practices, and operating jurisdiction(s).

We are expecting changes to other accounting standards in the meantime including IAS 7 "Statement on Cash flow Statement" to align the categories with IFRS 18, IAS 21, "The effect of change in foreign exchange rates" for classification of foreign exchange gain & losses and IAS 34 "Interim financial reporting" for aligning the classification in condense financial statement, etc.

IFRS 18 will also invoke standard setting changes in jurisdictions such as India, which are aligned to IFRS, however, where an IFRS 18 equivalent update may not have been initiated.

Meanwhile, until the standard becomes effective, the management and those charged with governance may educate the stakeholders, employees, investors, and other relevant users of the financial statement about the changes in the reporting requirements as per IFRS 18 for their reporting entity.

A TEAM THAT
YOU CAN TRUST TO DELIVER

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