Comments on the Tentative Agenda Decision – Labels of Subtotals (IFRS 18)

The Accounting Standards Board of the Institute of Chartered Accountants of India appreciates the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision on **"Labels of Subtotals (IFRS 18)"**.

The issue considered by the Committee relates to the labelling of a subtotal presented in an entity's statement of profit or loss where that subtotal is also a management-defined performance measure. In particular, the request considered whether the label of such a measure is required to explicitly list all the elements included in or excluded from the measure.

We appreciate the Committee's analysis and broadly agree with its tentative conclusion that the principles and requirements in IFRS 18 provide an adequate basis for addressing the matter and that a standard-setting project is not necessary.

However, we believe that certain aspects of the application of the requirements could benefit from further clarification to promote consistent application and enhance understandability of financial statements.

1. Overall view

We agree with the Committee's conclusion that a label of a subtotal that is also a management-defined performance measure is **not required to explicitly list all the elements included in or excluded from the measure**, provided that the label and the related descriptions and explanations comply with the applicable requirements of IFRS 18.

We consider this approach appropriate because requiring every individual component to be included in the label could result in excessively long and complex labels, particularly where a management-defined performance measure comprises a number of adjustments.

At the same time, we believe that the distinction between the **label itself** and the **description and explanation accompanying the measure** should be clearly articulated to ensure that the relief from including all components in the label does not result in insufficient information being provided to users.

Accordingly, we support the Committee's conclusion, subject to the clarifications suggested below.

2. Faithful representation of the characteristics of the measure

Paragraph 43 of IFRS 18 requires an entity to label and describe items presented in the primary financial statements in a way that faithfully represents their characteristics. Paragraph B134(a) applies a similar principle to management-defined performance measures. Further, paragraph 123 requires a management-defined performance measure to be labelled in a clear and understandable manner that does not mislead users.

We agree that these requirements provide an appropriate principles-based framework.

In our view, however, the final Agenda Decision could more clearly explain what is meant by a label **"faithfully representing the characteristics"** of a subtotal where the measure incorporates multiple adjustments.

For example, a label may appropriately use a commonly understood term while the precise definition of that term varies between entities. In such circumstances, the label alone may not communicate the complete characteristics of the measure.

We therefore suggest that the final Agenda Decision emphasise that the ability to use a concise label does not diminish the requirement to provide sufficient information elsewhere in the financial statements for users to understand the composition and nature of the measure.

3. Distinction between the label and the accompanying description

The Committee has appropriately observed that all necessary descriptions and explanations need not be included in the label itself and may instead be provided in the notes. The Committee refers, among other matters, to paragraph B135(a), which provides an example of a management-defined performance measure labelled "operating profit before non-recurring expenses", and paragraph B135(b), which requires an entity to explain the meaning of terms used in its descriptions.

We agree with this distinction.

However, we believe that the final Agenda Decision should make clear that the use of a concise label is appropriate **only when the accompanying descriptions and explanations provide the information necessary to ensure that the measure is not misleading**.

In other words, the conclusion should not be interpreted as permitting an entity to use a broad or potentially ambiguous label without providing an adequate explanation of the adjustments underlying the measure.

We recommend that the final Agenda Decision explicitly state this principle.

4. Use of terms that may have different meanings

We believe that particular attention should be given to terminology used in labels of management-defined performance measures.

The Committee's example of "operating profit before non-recurring expenses" illustrates that terms used in the label may themselves require explanation.

In practice, terms such as "adjusted", "underlying", "normalised", "recurring", "non-recurring", "exceptional" or similar expressions may have different meanings among entities. Accordingly, we suggest that the final Agenda Decision clarify that an entity should not assume that the use of a commonly used term automatically results in a label that faithfully represents the characteristics of the measure.

Where a term has an entity-specific meaning, that meaning should be clearly explained in accordance with the applicable requirements of IFRS 18.

This would help ensure comparability and reduce the possibility that users interpret similar labels as representing similar measures when their underlying composition differs.

5. Information about included and excluded items

We agree with the Committee that the label is not required to explicitly list **all** elements included in or excluded from a management-defined performance measure.

Nevertheless, from a user's perspective, information about the principal adjustments may be essential to understanding the measure.

We therefore recommend that the final Agenda Decision make clear that the conclusion relates specifically to the **form of the label**, and does not imply that an entity is relieved from providing information about the composition of the measure where such information is necessary to satisfy the disclosure requirements.

In particular, where a measure is significantly affected by a particular category of adjustment, the description accompanying the measure should enable users to understand that feature of the measure.

This distinction would maintain the flexibility of the labelling requirement while preserving the objective of transparent reporting.

6. Relationship between the subtotal and management-defined performance measure

The fact pattern considered by the Committee assumes that the measure both:

(a) complies with the requirements in paragraph 24 of IFRS 18 for additional subtotals in a primary financial statement; and

(b) meets the definition of a management-defined performance measure in paragraph 117 of IFRS 18.

We believe this aspect of the fact pattern is important.

Where a subtotal satisfies both sets of requirements, users may reasonably expect the presentation and disclosure of that subtotal to be consistent with both its nature as a subtotal and its nature as a management-defined performance measure.

We therefore recommend that the final Agenda Decision clarify that the conclusion regarding the label does not override or reduce any of the requirements applicable to additional subtotals in primary financial statements.

7. Need for judgement

We agree with the Committee's observation that determining how to appropriately label and describe the measure requires judgement based on an entity's specific facts and circumstances. We consider this judgement-based approach appropriate.

However, given the potential diversity in terminology used by entities, we believe that the final Agenda Decision could usefully emphasise that management's judgement should be exercised with the objective of ensuring that the label and description faithfully represent the measure and do not mislead users.

The assessment should therefore consider the perspective of users of the financial statements and not merely the terminology used by management internally.

8. Potential diversity in practice

We believe that the issue has the potential to create diversity in practice if entities interpret the Committee's conclusion differently.

For example, two entities may use substantially similar labels but exclude substantially different items from their respective measures.

Conversely, an entity may use a highly specific label even though a concise label, accompanied by an appropriate description in the notes, would adequately communicate the nature of the measure.

We therefore believe that the final Agenda Decision should reinforce the principle that **the adequacy of the label cannot be assessed in isolation from the accompanying description and explanations**.

This would provide an appropriate balance between concise presentation in the primary financial statements and sufficient transparency in the notes.

9. Illustrative guidance

Although we agree that a standard-setting project is not necessary, we believe that an additional illustrative example could be useful in supporting consistent application.
The example could demonstrate a management-defined performance measure that:

- is presented as an additional subtotal in the statement of profit or loss;
- has a concise label;
- excludes several categories of income and expenses;
- uses a term that has an entity-specific meaning; and
- provides the detailed explanation of the measure in the notes.

Such an example would reinforce the Committee's conclusion that the label itself need not list every included or excluded element, while demonstrating the level of explanation expected elsewhere in the financial statements.

10. Suggested clarification to the final Agenda Decision

We recommend that the Committee consider strengthening the wording of the final Agenda Decision to clarify that:

(a) a label of a subtotal that is a management-defined performance measure need not explicitly list every element included in or excluded from the measure;
(b) the label nevertheless needs to faithfully represent the characteristics of the measure and be clear and understandable and not misleading;
(c) where the label uses terms that have an entity-specific or potentially ambiguous meaning, the entity should explain the meaning of those terms appropriately;
(d) information necessary to understand the composition and characteristics of the measure may be provided in the notes rather than being incorporated into the label itself; and
(e) the conclusion regarding the label does not relieve an entity from complying with the other applicable presentation and disclosure requirements for additional subtotals and management-defined performance measures.

Conclusion

We appreciate the Committee's consideration of this matter.

We **support the Committee's tentative conclusion that a standard-setting project is not necessary**, as we agree that the existing principles and requirements in IFRS 18 provide an adequate basis for determining the appropriate label of a subtotal that is also a management-defined performance measure.

At the same time, we recommend that the final Agenda Decision provide additional clarification that the conclusion should not be interpreted as permitting an entity to use a concise label without providing sufficient information elsewhere in the financial statements to enable users to understand the characteristics and composition of the measure.

In our view, the appropriate application of the requirements should strike a balance between:

- **concise and understandable labels** in the primary financial statements; and
- **sufficiently detailed descriptions and explanations** in the notes to enable users to understand the measure and assess its relevance and comparability.

Subject to the above clarification, we support the Committee's tentative conclusion that the existing requirements of IFRS 18 provide an adequate basis for addressing the matter and that a standard-setting project is not required.

We thank the Committee for providing stakeholders with the opportunity to comment on this important matter.