Tentative Agenda Decision and comment letters: Management-defined Performance Measures—Hypothetical Income and Expenses (IFRS 18)

The IFRS Interpretations Committee (Committee) discussed the following matter and tentatively decided not to add a standard-setting project to the work plan. The Committee will reconsider this tentative decision, including the reasons for not adding a standard-setting project, at a future meeting. The Committee invites comments on the tentative agenda decision. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by good reason, for example, commercial confidence.

Tentative Agenda Decision

Open for comment until 9 September 2026

Paragraph 117 of IFRS 18 defines a management-defined performance measure as 'a subtotal of income and expenses that…:

a. an entity uses in public communications outside financial statements;
b. an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and
c. is not listed in paragraph 118 [a list of subtotals of income and expenses that are not management-defined performance measures], or specifically required to be presented or disclosed by IFRS Accounting Standards.'

The Committee received a request asking whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure in IFRS 18.

Fact pattern

The request describes hypothetical income and expenses as income and expenses that an entity has not recognised and will never recognise in its statement of financial performance applying IFRS Accounting Standards.

The request asks whether, as set out in paragraph 117 of IFRS 18, a performance measure that includes such hypothetical income and expenses:

a. can be a subtotal of income and expenses; and
b. must faithfully represent an aspect of the financial performance of the entity as a whole.

Applying the requirements in IFRS 18

The Committee observed that to be considered a management-defined performance measure, a subtotal of income and expenses must, amongst other things, be used by an entity in public communications outside financial statements.

Subtotal of income and expenses

Paragraph 117 of IFRS 18 states that a 'management-defined performance measure is a subtotal of income and expenses…'. The Committee observed that this paragraph contains no restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. Consequently, this paragraph does not restrict an entity from including income and expenses that are not, and will not, be recognised in the entity's statement of financial performance applying IFRS Accounting Standards.

Paragraph BC357 of the Basis for Conclusions accompanying IFRS 18 explains that the IASB decided to place no specific restriction on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure because such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.

The Committee therefore concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses in accordance with paragraph 117 of IFRS 18.

Faithful representation

In considering faithful representation, an entity assesses whether information disclosed in financial statements faithfully represents what the information purports to represent.

The objective of disclosures about management-defined performance measures—outlined in paragraph 121 of IFRS 18—includes providing information to help a user of financial statements understand the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure. Therefore, when considering whether information disclosed about management-defined performance measures faithfully represents what it purports to represent, the Committee observed that the phrase 'management's view of an aspect of the financial performance of the entity as a whole' in paragraph 117 of IFRS 18 describes the information a management-defined performance measure purports to represent. In other words, 'an aspect of the financial performance of the entity as a whole' should not be read independently of 'management's view'.

As explained in paragraph BC360 of the Basis for Conclusions accompanying IFRS 18, in the context of management-defined performance measures, faithful representation does not provide information about whether a measure is a 'good' or 'bad' measure.

Conclusion on applying IFRS 18

The Committee concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses and can faithfully represent what it purports to represent—that is, management's view of an aspect of financial performance of the entity as a whole.

If the performance measure meets all the relevant criteria in paragraph 117 of IFRS 18, that performance measure is a management-defined performance measure and the entity is required to apply paragraphs 121–125 of IFRS 18 to disclose information in its financial statements about that management-defined performance measure. These include requirements to, for example, label and describe a management-defined performance measure 'in a clear and understandable manner that does not mislead users of financial statements' (paragraphs 123 of IFRS 18).The objective of the disclosures for management-defined performance measures, outlined in paragraph 121 of IFRS 18, is for an entity to provide information to help a user of financial statements understand:

a. the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and
b. how the management-defined performance measure compares with the measures defined by IFRS Accounting Standards.

Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

The deadline for commenting on the tentative agenda decision is **9 September 2026**. The Committee will consider all comments received in writing by that date; agenda papers analysing comments received will include analysis only of comments received by that date.

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