IFRS 18: Disclosures about Management-defined Performance Measures (MPMs)

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Background

IFRS 18 *Presentation and Disclosure in Financial Statements* introduces the concept of MPMs and requires their disclosure in the financial statements, making them part of the audited financial statements. MPMs are subtotals of income and expenses used in public communications outside of the financial statements to communicate management's view of an aspect of the entity's financial performance. This concept captures some, but not all, non–generally accepted accounting principles (GAAP) measures that companies commonly use today.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, and applies retrospectively. Therefore, many entities are in the process of identifying and analyzing which of their performance metrics that may appear in their interim financial statements will qualify as MPMs. Entities will need to identify their MPMs each reporting period, including interim periods, and disclose reconciliations of the measures to the most directly comparable IFRS Accounting Standards subtotals, including tax and non-controlling interest effects. Requiring MPM disclosures in the condensed interim financial statements will involve additional effort, as IFRS 18 provides no relief from the reconciliation requirement. IFRS 18 introduces consequential amendments to IAS 34 *Interim Financial Reporting* that require these disclosures for MPMs in interim financial statements. However, only MPMs that relate to performance in the interim reporting period need to be disclosed.

While IFRS 18's disclosure requirements for MPMs apply to the financial statements, National Instrument 52-112 Non-GAAP and *Other Financial Measures Disclosures* (NI 52-112) sets out disclosure requirements for non-GAAP financial measures, non-GAAP ratios, and other financial measures outside the financial statements. Canadian Securities Administrators (CSA) have published Proposed Amendments to NI 52-112 to ensure that all financial measures traditionally considered non-GAAP continue to be regulated under NI 52-112 when disclosed outside the financial statements. Comments on the Proposed Amendments were due by February 11, 2026, and the CSA is currently reviewing those comments.

The MPM requirements apply to all entities applying IFRS Accounting Standards, including private companies and publicly accountable enterprises. If a private entity communicates subtotals that meet the definition of MPMs outside its financial statements, that entity would be required to apply the related disclosure requirements. However, if an entity does not communicate such subtotals outside its financial statements, the MPM disclosure requirements would not apply.

IFRS 18 defines an MPM 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 or specifically required to be presented or disclosed by IFRS Accounting Standards.

The Group discussed MPMs at its meeting in May 2025. The Group revisited this discussion by further examining some issues in practice.

Background for Issue 1

Entities may use a subtotal that begins with an IFRS Accounting Standards profit or loss measure and adjust it (either through addition or subtraction) for balance sheet or cash flow items rather than specific income or expenses recognized in the period. For example, an entity might disclose net income adjusted to include capital expenditures.

Management might communicate cash flow related non-GAAP measures to help investors understand the company's ability to meet short-term obligations to fund its operations. However, even if an entity labels a non-GAAP measure to suggest it is a liquidity or cash flow metric and includes words in the label such as "cash," "funds", or "flow," entities must consider how they calculate the measure. The labelling of a metric itself does not determine whether it is an MPM. Additionally, companies may calculate a similarly labelled metric in different ways, which may result in one metric meeting the definition of an MPM for one company, but not for another.

Fact Pattern 1

- A real estate company publicly discloses a metric called adjusted funds from operations (AFFO) outside its financial statements. The entity calculates AFFO in two steps as follows:
    - Step 1: Funds from operations (FFO) = Net income from IFRS Accounting Standards financial statements adjusted for: unrealized changes in the fair value of investment properties, amortization of tenant allowances, gains/losses from sales of investment properties, taxes on gains from disposal of properties, operational revenues and expenses from right-of-use assets, and capitalized interest related to qualifying assets
    - Step 2: AFFO = FFO adjusted for: capital expenditures, leasing costs, tenant improvements, and straight-line rent

Issue 1: Does AFFO Represent a Subtotal of Income and Expenses per IFRS 18?

Analysis

View 1: Yes, AFFO represents a subtotal of income and expenses

Proponents of this view note that IFRS 18 does not include a definition of the term "subtotal". They also note that nothing in IFRS 18 appears to restrict the composition of the subtotal to amounts an entity recognizes and measures in accordance with IFRS Accounting Standards, nor does it prescribe how management might adjust an IFRS Accounting Standards subtotal. They think this is intentional due to the following guidance in paragraph BC331 of the Basis for Conclusions for IFRS 18 (emphasis added):

The IASB decided to limit the definition of 'management-defined performance measures' to subtotals of income and expenses. For example, **measures that adjust a total or subtotal specified in IFRS Accounting Standards, such as adjusted profit or loss**, are management-defined performance measures. Other measures (such as free cash flow or customer retention rate) are not management-defined performance measures.

An entity can also infer this by the requirement in paragraph 123 of IFRS 18 to disclose:

- how the MPM is calculated, including how the measure differs from accounting policies in IFRS Accounting Standards; and
- a reconciliation between an MPM and the most directly comparable IFRS Accounting Standards subtotal.

Proponents of this view think the key to whether a performance measure is a subtotal of income and expenses is whether the measure starts with, or anchors to, a subtotal derived from the IFRS Accounting Standards income statement. Beyond that, there are generally no explicit restrictions in IFRS 18 as to the types of adjustments that can be made to the subtotal of income and expenses that would prevent it from being an MPM, as long as the subtotal of income and expenses meets the rest of the definition. For example, the measure would still need to be used in public communications and depict management's view of an aspect of financial performance of the entity as a whole to meet the definition of an MPM.

AFFO originates from FFO, which is a performance measure. The origin of FFO, which is also defined and reconciled in MD&A as it is a non-GAAP measure, is net income. Furthermore, management often provides AFFO as a supplemental measure of operating performance, suggesting that it is used to communicate management's view of an aspect of the financial performance of the entity as a whole.

View 2: No, AFFO does not represent a subtotal of income and expenses

Proponents of this view note that the definition of an MPM in paragraph 117 of IFRS 18 and associated guidance in paragraphs B116-B118 require the measure to be a subtotal of income and expenses. Paragraphs 4.68-4.69 in the *Conceptual Framework* define income and expenses as movements in assets and liabilities that result in increases or decreases in equity (other than contributions from/distributions to holders of equity claims). AFFO anchors to FFO, which is a subtotal of income and expenses from IFRS Accounting Standards that, as illustrated in Fact Pattern 1, has been adjusted for balance sheet items. Therefore, proponents of this view think it does not constitute a subtotal of income and expenses and would not be subject to the MPM disclosure requirements in IFRS 18.

The Group's Discussion

Most Group members supported View 1 because they think entities should identify MPMs based on their purpose and how management uses them to communicate financial performance. They think entities might be able to leverage some existing disclosures made under securities law (i.e., NI 52-112) to determine management's use of a measure and whether it is anchored to the income statement. Furthermore, they think if a measure is anchored to the income statement, it would typically meet the definition of an MPM, regardless of whether certain adjustments relate to non-income statement items. One Group member supported this view by referring to paragraph BC357 of the Basis for Conclusions for IFRS 18. The paragraph notes that the IASB decided not to place restrictions on how an entity calculates an MPM, as such restrictions could limit the usefulness of the information provided. Another Group member highlighted paragraph B134(b) in the application guidance of IFRS 18, which notes that additional disclosure is required when the calculation of an MPM differs from accounting policies required or permitted by IFRS Accounting Standards. They think this guidance affirms that subtotals of income and expenses that adjust for non–IFRS Accounting Standards–compliant accounting policies are MPMs.

One Group member supported View 2 based on a narrower interpretation of a "subtotal of income and expenses." They suggested that such a subtotal should represent an intermediary amount derived solely from income and expense items recognized under IFRS Accounting Standards, without adjustments for non–IFRS Accounting Standards or non-income-statement items.

Background for Issue 2

Paragraph 23 of IFRS 8 *Operating Segments* requires an entity to report "a measure of profit or loss for each reportable segment." This measure of profit or loss does not need to be calculated in accordance with IFRS Accounting Standards applied in the entity's IFRS-compliant financial statements (paragraphs 23 and 25 of IFRS 8). It is based on the "management approach" (i.e., information reported internally to the chief operating decision maker).

If a segmental profit or loss subtotal meets the definition of an MPM under IFRS 18, then additional disclosures would need to be provided in the notes to the financial statements (i.e., beyond what is required under IFRS 8). This information will need to be disclosed separately in the note dedicated to all MPMs or, if combined with segment disclosures, clearly distinguished therefrom (paragraph B132 of IFRS 18).

Fact Pattern 2

- An entity with diversified operations has five reportable segments: car parts, motor vessels, software, electronics, and finance.
- The information disclosed about each reportable segment's profit or loss, assets and liabilities are included in reports used by the chief operating decision maker.

- Management discloses adjusted net interest revenue (net interest revenue adjusted for unusual transactions and accrual accounting) in its MD&A. Net interest revenue is a profit or loss measure that is only included in the entity's finance segment.
- Assume that adjusted net interest revenue would otherwise meet the definition of an MPM.
- The example in this fact pattern was derived from paragraph IG3 in the IFRS 8 Implementation Guidance. See paragraph IG3 for a more detailed illustration of this fact pattern.

Issue 2: Can Adjusted Net Interest Revenue Ever Constitute Management's View of an Aspect of the Financial Performance of the Entity as a Whole?

Analysis

View 1: No, individual reportable segment performance measures only communicate an aspect of the financial performance of the entity

Proponents of this view note that paragraph 117 of IFRS 18 defines an MPM as a subtotal of income and expenses that is used to communicate to users of the financial statements management's view of an aspect of the financial performance of the entity as a whole. Paragraph B114 of IFRS 18 states:

For example, if a subtotal of income and expenses that relates to a reportable segment disclosed in accordance with IFRS 8 does not provide information about an aspect of the financial performance of the entity as a whole, that subtotal cannot meet the definition of a management-defined performance measure.

Therefore, proponents of this view think that for a performance measure to meet the definition of an MPM, it must relate to the performance of each operating segment. As net interest income only relates to the finance segment, the measure is not cross-cutting and does not represent performance of the entity as a whole.

View 2: Yes, an individual reportable segment performance measure may meet the definition of an MPM

Proponents of this view think the guidance in paragraph B115 of IFRS 18 and paragraph BC346 of the Basis for Conclusions suggest that there are circumstances when a reportable segment can provide information about the performance of an entity as a whole. Specifically, paragraph B115 of IFRS 18 discusses situations when there may be one segment that includes a main business activity. It states:

For example, if a reportable segment contains a single main business activity of the entity and a subtotal of income and expenses relating to that segment is presented in the statement of profit or loss, that would indicate that the subtotal provides information about an aspect of the financial performance of the entity as a whole. In such cases, a subtotal of income and expenses related to that reportable segment would meet the definition of a management-defined performance measure if it met the other parts of the definition of a management-defined performance measure.

In addition, paragraph BC346 in the Basis for Conclusions for IFRS 18 notes that a subtotal in the statement of profit or loss that arises from a single reportable segment may represent performance of the entity as a whole:

[A] reportable segment measure might provide information about the performance of an entity as a whole—for example, if it presents a subtotal in the statement of profit or loss that relates to only one of its reportable segments. The IASB did not exclude such segment measures from the definition of management-defined performance measures.

Net interest revenue only arises in the finance segment, and it is presented directly on the statement of profit or loss. Because management discusses adjusted net interest revenue in the MD&A, proponents of this view think it likely represents the entity's performance as a whole for this aspect of the business.

The Group's Discussion

The Group supported View 2 because they think an individual reportable segment performance measure may meet the definition of an MPM, depending on the facts and circumstances. They emphasized that the assessment requires careful analysis, particularly in considering whether the measure represents an aspect of the entity "as a whole." Some Group members noted that the number of segments, how the entity presents measures, and whether it discloses totals or comparable metrics across segments are relevant factors in making this determination.

Some Group members think segment measures will not often qualify as MPMs. However, they emphasized that entities should not assume such measures are automatically out of scope and should assess each measure based on its purpose, presentation, and how management uses it to communicate performance. One Group member also noted that there is a rebuttable presumption in IFRS 18 that a subtotal of income and expenses that an entity communicates publicly is an MPM. They think this reinforces that a segment measure that an entity regularly discloses outside its financial statements might be an MPM unless the entity provides reasonable and supportable information to rebut this presumption.

Issue 3: Income versus "Negative Expense"

Analysis

Paragraph B116(a) of IFRS 18 clearly states that subtotals of only income or only expenses are not subtotals of income and expenses and, consequently, are not MPMs. Some metrics that entities use to measure performance may include subtotals that contain "negative expenses" or reversals of expenses. Examples could include the numerator or denominator in efficiency ratios. Entities use such measures as an indicator of profitability by gauging how well the entity manages costs compared to how much revenue they earn. For example, financial institutions normally disclose an efficiency ratio as a key performance metric.

A cost-to-income ratio may include a numerator of "operating costs" or "adjusted operating costs". If the numerator comprises only expenses, it would not be a potential MPM. However, "operating costs" might include items that are expenses (i.e., debits) in one period but income (i.e., credits) in another period. In periods when "operating costs" include a line item that is income, it would be a subtotal of income and expenses. Examples could include impairments and other write-downs that can reverse. Operating costs might also include foreign exchange movements that fluctuate between gains and losses. Operating expenses could also include other expense estimates that can be revised or reversed in a reporting period resulting in a "credit" within operating costs.

If income items are netted within a subtotal of expenses, the measure can still be a subtotal of income and expenses, but this requires careful assessment. That assessment depends on the nature of the credit, how it arises, and how management views the measure. Labels that management uses in its public communications to describe the measure are not determinative. Whether adjusted operating expenses is a subtotal of income and expenses depends on whether the measure genuinely combines income and expenses, or whether it remains, in substance, an aggregation of expenses with "expense-related" credits.

The Group's Discussion

The Group agreed with the analysis and noted that the existence of a credit within an expense measure does not automatically make it an MPM. They emphasized that entities should assess the purpose of the measure when determining whether it meets the definition of an MPM. One Group member observed that certain adjustments may not occur in every period and that the absence of a gain or credit in a given period does not affect the conclusion. Instead, entities should focus on how management defines and uses the measure, noting that a measure can still qualify as an MPM even if expected adjustments, such as gains, do not arise in that period.

Overall, the Group's discussion raised awareness of factors an entity might consider when determining whether a reported metric qualifies as an MPM under IFRS 18. The Group recommended the AcSB continue to monitor the evolving application of IFRS 18 and engage in global dialogue, including following developments from the IFRS Interpretations Committee.