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AUTORITÉ DES NORMES COMPTABLES

IASB - Mr Bruce Mackenzie
IFRS Interpretations Committee Chair
Columbus Building
7 Westferry Circus - Canary Wharf
London E14 4HD

RO n°18

Paris, 7 September 2026

Management-defined Performance Measures - Hypothetical Income and Expenses (IFRS 18)

Dear Chair,

The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IFRS Interpretations Committee (the Committee) to comment on hypothetical income and expenses in Management-defined Performance Measures (IFRS 18) (Appendix A).

The ANC has significant concerns about several aspects of this Tentative Agenda Decision.

With regard to the subtotals of income and expenses, the ANC is uncomfortable with the Committee directly concluding 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". This conclusion is problematic because it does not first establish whether hypothetical income and expenses – defined as "income and expenses that an entity has not recognised and will never recognise in its statement of financial performance applying IFRS Accounting Standards" – meet the definition of income and expenses as set out in the Conceptual Framework.

Firstly, the ANC particularly regrets that the Committee did not seek to distinguish more clearly between the examples set out in paragraph 7 of the submission. For instance, Example 1 (annualised rental income minus non-recoverable property expenses) and Example 3 (pro forma gross profit as if the business combination had taken place at the beginning of the reporting period) correspond to measures essentially based on actual and observable data. By contrast, Example 2 (net profit excluding the effects of a major crisis) involves the use of entirely fictitious data or scenarios.

According to the ANC, purely fictitious income and expenses – that is, those relating to transactions that have not taken place and will not take place – do not meet the definition of income and expenses within the meaning of paragraph 4.71 of the Conceptual Framework, which defines them as elements of financial statements that relate to an entity's financial performance. Consequently, a performance measure that includes them should not be qualified as a MPM. Conversely, other performance measures intended to neutralise the effects of a crisis or an exceptional event by excluding those actual impacts – the performance measure itself being composed solely of actual components – are subtotals of income and expenses and may therefore qualify as a MPM.

Secondly, although Examples 1 and 3 meet the definition of a subtotal, the ANC considers that these measures, which eliminate the effects of specific factors, are generally used to analyse period-on-period changes in an absolute measure. The same rationale applies, for instance, to results reported at constant scope and/or exchange rates, which are commonly used hypothetical performance measures. The ANC notes that these measures are not intended to portray performance, but to supplement a given key performance measure to explain its change compared with the previous period. By their very purpose of enhancing understanding of a key performance measure, these measures hold no prominence over it – a critical observation in the light of the criteria set out in paragraphs 120 and B124-B131 of IFRS 18, which address how an entity may rebut the presumption that a management-defined performance measure reflects management's view of an aspect of financial performance as a whole.

For instance, the gross margin at constant exchange rates for year N cannot be compared with the gross margin at constant exchange rates for year N-1. It is compared with the gross margin at actual exchange rates for year N-1, as in reality, it is merely a tool for analysing and explaining the change in the gross margin at actual exchange rates between N-1 and N. It is the gross margin at actual exchange rates that does qualify as the performance indicator reported by the entity.

In addition, on the issue of faithful representation, the ANC concurs with the Committee's reference to paragraph BC360 of the Basis for Conclusions on IFRS 18, which states that "in the context of management-defined performance measures, faithful representation does not provide information about whether a measure is a "good" or "bad" measure".

However, the ANC notes that IFRS 18 requirements do not appear to include a clear backstop against presenting hypothetical performance measures that could mislead investors. Performance measures such as Example 2 in paragraph 7 of the submission may, depending on the circumstances, depict performance that users find difficult to assess or verify. Several regulators raised similar concerns in the context of alternative performance measures reported during the Covid-19 pandemic[1].

In such instances, it would be impossible to verify whether the measure genuinely reflects management's views and neither auditors nor enforcers would have a basis under existing requirements to challenge such practices. This situation represents a risk to the quality of financial information and users' ability to understand it. As a consequence, the ANC recommends that the Committee reports this matter to the Board.

Lastly, regardless of the outcome of the above request to report the matter to the Board, the ANC wishes to highlight the importance of the timing issue related to the finalisation and first application of this Agenda Decision. In principle, an entity is expected to apply an Agenda Decision as soon as reasonably possible, while ensuring it has sufficient time to implement any necessary changes to its accounting policies. However, in view of the forthcoming application of IFRS 18 on 1 January 2027, and the fact that this Agenda Decision pertains to an Accounting Standard not yet applied, the ANC urges the Committee to give due consideration to this timing issue to ensure that entities are not placed in a difficult position following the publication of the Agenda Decision.

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

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ANC Chair

[1] IOSCO, Statement on Importance of Disclosure about COVID-19, 29 May 2020 (IOSCO/OR/02/2020)
ESMA, Public Statement, European common enforcement priorities for 2020 annual financial reports, 28 October 2020 (ESMA32-63-1041)

Appendix A
Tentative Agenda Decision (xx 2026)
Management-defined Performance Measures - Hypothetical Income and Expenses (IFRS 18)

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:

. can be a subtotal of income and expenses; and

. 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:

. the aspect of financial performance that, in management's view, is communicated by a management-defined performance measure; and

. 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.