

# Draft Endorsement Criteria Assessment

## *IFRS 18 Presentation and Disclosure in Financial Statements*

July 2025



DRAFT

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# Executive summary

## Background

1. The UK Endorsement Board (UKEB) is responsible for the endorsement and adoption of international accounting standards (issued by the International Accounting Standards Board (IASB) in the form of International Financial Reporting Standards, or (IFRS) for use in the United Kingdom (UK). The UKEB is therefore the UK's National Standard Setter for IFRS.
2. This [Draft] Endorsement Criteria Assessment ([Draft] ECA) presents the work conducted by the UKEB to assess whether IFRS 18 *Presentation and Disclosure in Financial Statements*, issued by the International Accounting Standards Board in April 2024, meets the UK's statutory requirements for adoption of IFRS as set out in Regulation 7 of [Statutory Instrument 2019/685](#) (the Regulations).
3. Although the Regulations refer only to 'adoption', for the purposes of this [Draft] ECA the term endorsement is generally used when referring to the assessment of IFRS 18 against the criteria set out in the Regulations.
4. This assessment addresses the three endorsement criteria set out in the Regulations:
  - a) whether IFRS 18 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management;
  - b) whether IFRS 18 is likely to be conducive to the long term public good in the UK; and
  - c) whether IFRS 18 is not contrary to the true and fair view principle for individual and consolidated accounts.
5. These endorsement criteria are described in more detail in [Section 1](#). Sections [3](#), [4](#) and [5](#) discuss whether these criteria are met.
6. The [Draft] ECA also addresses, in [Section 6](#), whether IFRS 18 is likely to lead to a significant change in accounting practice as set out in Regulation 11 of [SI 2019/685](#).

## Work to support these assessments

7. The work to support these assessments has spanned several months and has been responsive to stakeholder input throughout. The UKEB conducted the following activities to collect evidence to assess whether IFRS 18 meets the technical and the long term public good assessment criteria for endorsement:

- a) **Surveys:** During Q3 2024, the UKEB conducted two surveys, one for preparers and one for users (including feedback from listed small- and medium-cap entities).<sup>1</sup>
- b) Engagement with **UKEB Advisory Groups** and with its **Financial Instruments Working Group (FIWG)**.
- c) **Webinar poll:** In July 2024, the UKEB held a joint webinar with the IASB to discuss the key requirements of IFRS 18 and its implications. During the webinar, participants were asked to respond to a poll on the costs and benefits of adoption.
- d) **Questionnaire to auditors:** During Q3 2024, the UKEB sent a short questionnaire to members of the UKEB Accounting Firms and Institutes Advisory Group (AFIAG) to gather views on the likely costs and benefits of adoption.
- e) **Interviews:** During Q4 2024, the UKEB conducted 15 interviews with preparers to gather evidence for the long term public good assessment (including with three preparers from listed small- and medium-cap entities).
- f) **Other engagement:** The UKEB engaged bilaterally with UK regulators, professional accounting bodies, industry associations, users and other national and regional standard setters.
- g) A **desktop analysis** of the requirements in IFRS 18, the basis for these requirements and its effects analysis, accounting firms' publications and work by other standard setters.

## **IFRS 18 *Presentation and Disclosure in Financial Statements***

- 8. IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. IFRS 18 sets out general presentation and disclosure requirements that apply across the primary financial statements and the notes. It has an effective date of 1 January 2027, with earlier application permitted (subject to UKEB adoption in the UK). IFRS 18 does not change how entities recognise and measure items in the financial statements.
- 9. Most requirements from IAS 1 have been incorporated into IFRS 18 unchanged or with minor revisions. [Section 2](#) of this [Draft] ECA provides a summary of the requirements in IFRS 18 including an analysis of the requirements brought forward from IAS 1.

<sup>1</sup> The UKEB Preparer survey collected 46 responses and the UKEB User survey collected 22 responses.

## Technical accounting criteria

10. [Section 3](#) of this [Draft] ECA addresses whether IFRS 18 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for users of accounts and investors in making economic decisions and assessing the stewardship of management (referred to in this [Draft] ECA as the technical accounting criteria).
11. The assessment of IFRS 18 against the technical accounting criteria considers this Standard as a whole including the requirements transferred from IAS 1. A detailed analysis against the technical accounting criteria is reported only in relation to the specific issues where stakeholders raised some practical challenges (an 'exceptions-based approach') (refer to [Appendix B](#)).
12. In conducting this overall assessment against the technical accounting criteria, the UKEB is required to adopt an absolute, rather than a relative, approach.
13. Overall, the UKEB [tentatively] concluded that IFRS 18 meets the technical accounting criteria.

## UK long term public good

14. The UKEB's analysis of whether IFRS 18 is likely to be conducive to the long term public good in the UK is presented in [Section 4](#) of this [Draft] ECA. In line with the Regulations, this section:
  - a) presents an overview of the improvements introduced by the Standard and discusses whether IFRS 18 is likely to improve the quality of financial reporting in the UK;
  - b) considers the costs and benefits likely to result from the use of IFRS 18 in the UK; and
  - c) considers whether the use of IFRS 18 is likely to have an adverse effect on the economy of the UK, including on economic growth.
15. Considering whether IFRS 18 is likely to improve the quality of financial reporting involved comparing the main new requirements in IFRS 18 with current practice. This means that the approach for this assessment was a relative one.
16. The assessment concludes that implementing IFRS 18 will lead to improvements in the quality of financial reporting in the UK by enhancing transparency and comparability of the information presented. It will also improve the disclosure requirements for management performance measures and enhance the requirements for grouping and disaggregating financial information.
17. The economic impact assessment of IFRS 18 in this [Draft] ECA begins with the assessment of costs and benefits associated with its use.



18. Users reported that the implementation of IFRS 18 should result in a more efficient use of time spent analysing financial statements, potentially increasing the quality of analysis and reports. Users indicated that they would be able to better compare entities' performance between each other and over time, enhance their assessment of individual entities' performance and allocate capital more efficiently between entities. Users also indicated that they anticipated incurring minimal implementation costs. Preparers indicated that they expect to incur relatively small implementation costs (both one-off and ongoing) as a result of applying IFRS 18. Preparers expect one-off monetary costs to be largely associated with extra audit fees, familiarisation and changes to templates (non-monetary staff time reallocation costs). Preparers expect ongoing implementation costs to be much lower than one-off implementation costs, and to be subsumed into business as usual within a few years.
19. The UKEB conducted quantitative analysis to obtain a high-level estimate of expected implementation costs for all UK-listed entities. The estimation provides an indicative range for implementation costs across the entire population of entities that would be required to apply IFRS 18 and should **not** be interpreted as an accurate forecast of implementation costs. The most likely point estimate within the range (reported in [Appendix D](#)), across the approximately 1,400 listed entities that are required to apply IFRS is that that total implementation costs would approximate £400 million (one-off and ongoing), of which approximately £100 million are expected to be actual extra monetary costs, while the rest represent opportunity costs associated with staff time reallocation. Total estimated implementation costs amount to approximately 0.02% of listed entities operating expenses as of 2023 year-end.
20. The analysis of wider economic effects indicates that IFRS 18 may plausibly lead to wider capital market effects that would on average benefit preparers in the medium- to long-run. A quantitative analysis of such effects shows that small market-wide reductions in the cost of capital would be enough for UK-listed entities applying IFRS to indirectly recover their implementation costs in the medium- to long-term. The UKEB cannot predict with certainty whether any such market-wide effects will materialise and, if so, their magnitude.
21. IFRS 18 is not expected to lead to wider economic effects that are detrimental to the UK economy, including on economic growth.
22. An analysis of a non-adoption scenario shows that not implementing IFRS 18 for use in the UK would have a potentially detrimental effect on the UK economy (see paragraphs 4.106–4.111).
23. Overall, the UKEB [tentatively] concluded that the use of IFRS 18 is likely to be conducive to the long term public good in the UK.

## True and fair view principle

24. [Section 5](#) of the [Draft] ECA addresses whether IFRS 18 is not contrary to the true and fair view principle for both individual and consolidated accounts Regulation

7(1)(a) of SI 2019/685 (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. This assessment also considered the disclosures required by the Standard and its interaction with other UK-adopted international accounting standards.

25. The assessment has not identified any IFRS 18 requirement that would prevent individual or consolidated accounts prepared using IFRS 18 from giving a true and fair view of the entity's assets, liabilities, financial position and profit or loss. Consequently, the UKEB [tentatively] concluded that IFRS 18 is not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.

## Is IFRS 18 likely to lead to a significant change in accounting practice?

26. [Section 6](#) of the [Draft] ECA addresses whether IFRS 18 is likely to lead to a significant change in accounting practice. If a standard adopted by the UKEB per Regulation 6 of SI 2019/685 is likely to lead to a 'significant change in accounting practice', the requirements in paragraph 3 of Regulation 11 of SI 2019/685 apply. Subject to said requirements, the UKEB is required to:
- a) carry out a review of the impact of the adoption of the Standard; and
  - b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used).
27. [The UKEB considers that IFRS 18 is a new standard that will not bring a significant change in the way all entities communicate information in the primary financial statements and the notes. As a result, it [tentatively] concludes that IFRS 18 is not likely to lead to a significant change in accounting practice and does not meet the criteria for a post-implementation review (PIR) under Regulation 11 in SI 2019/685.



# Introduction

## Purpose

1. The UK Endorsement Board (UKEB) is responsible for the endorsement and adoption of international accounting standards (issued by the International Accounting Standards Board (IASB) in the form of International Financial Reporting Standards, or (IFRS) for use in the United Kingdom (UK). The UKEB is therefore the UK's National Standard Setter for IFRS.
2. The purpose of this [Draft] Endorsement Criteria Assessment (ECA) is to determine whether IFRS 18 *Presentation and Disclosure in Financial Statements* (the Standard), issued by the IASB in April 2024, meets the UK's statutory requirements for adoption as set out in Regulation 7 of Statutory Instrument 2019/685<sup>2</sup> (SI 2019/685).
3. The Standard has an effective date of 1 January 2027 with earlier application permitted (subject to the UKEB adoption in the UK). If an entity applies IFRS 18 for an earlier period, it shall disclose that fact in the notes.
4. The UKEB actively influenced the development of IFRS 18. This included the Secretariat submitting a Final Comment Letter on 30 September 2020<sup>3</sup>, prior to the delegation of authority to the UKEB Board, in response to the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures*<sup>4</sup>.

## Background to the Standard

5. [Section 2](#) in this [Draft] ECA provides a brief description of the main requirements in IFRS 18, including an analysis of the requirements brought forward from IAS 1.

## Scope of the adoption assessment

6. IFRS 18 replaces IAS 1 *Presentation of Financial Statements* and makes changes to the mandatory parts of IFRS accounting standards. These changes form part of the UKEB's adoption assessment.

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<sup>2</sup> Link to [SI 2019/685](#).

<sup>3</sup> Link to [Final Comment Letter](#).

<sup>4</sup> IASB ED/2019/7 [Exposure Draft: General Presentation and Disclosures](#)

7. UK-adopted international accounting standards comprise only the mandatory sections of standards.<sup>5</sup> The Bases for Conclusion, Implementation Guidance, and Illustrative Examples of the IFRS Accounting Standards are not adopted by the UKEB and amendments to these non-mandatory sections are not considered in this [Draft] ECA.<sup>6</sup>

## Structure of the assessment

8. The UKEB's analysis is presented in the following sections:
- a) [Section 1](#) describes UK statutory requirements for adoption of new or amended international accounting standards and the approach to the endorsement criteria assessment;
  - b) [Section 2](#) describes:
    - i. The entities in scope for the assessment of IFRS 18; and
    - ii. The main requirements in IFRS 18 and what has changed, including an overview of the elements imported from IAS 1.
  - c) **Sections 3–5** discuss whether IFRS 18 meets the requirements for adoption described in Section 1. More specifically:
    - i. [Section 3](#): addresses whether IFRS 18 meets the technical accounting criteria and explains the approach to the assessment of these criteria. [Appendix B](#) includes an individual assessment of the specific technical issues raised by UK stakeholders;
    - ii. [Section 4](#): analyses whether IFRS 18 is likely to be conducive to the long term public good in the UK. Appendices [C](#), [D](#) and [E](#) provide extra evidence in support of this assessment; and
    - iii. [Section 5](#): considers whether IFRS 18 is not contrary to the true and fair view principle for individual and consolidated accounts.
  - d) [Section 6](#) considers whether IFRS 18 is likely to lead to a significant change in accounting practice.

<sup>5</sup> The term 'standard' is used to refer to amendments to international accounting standards, in line with the definition of 'international accounting standards' in SI 2019/685, which includes 'subsequent amendments to international accounting standards'.

<sup>6</sup> The introduction to the IASB's yearly bound volumes differentiates between mandatory and non-mandatory sections of the standards. Mandatory pronouncements relate to IFRS Standards, IAS Standards, Interpretations and Mandatory Application Guidance. These are UK-adopted international accounting standards. Non-mandatory guidance includes Bases for Conclusion, Dissenting Opinions, Implementation Guidance and Illustrative Examples, together with the IFRS Practice Statements. These are not adopted by the UKEB as they are not international accounting standards, as defined in SI 2019/685.

# 1. Section 1: UK statutory requirements for adoption and the approach to the endorsement criteria assessment

## Introduction

- 1.1 This section describes UK statutory requirements for adoption of new or amended international accounting standards and the approach to the endorsement criteria assessment.

## UK statutory requirements

- 1.2 Paragraph 1 of Regulation 7 of SI 2019/685<sup>7</sup> requires that an international accounting standard only be adopted if:

- (b) the standard<sup>8</sup> is not contrary to either of the following principles—
  - (i) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
  - (ii) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
- (c) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
- (d) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

<sup>7</sup> Link to [Regulation 7 of SI 2019/685](#).

<sup>8</sup> The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (Standing Interpretations Committee / International Financial Reporting Interpretations Committee interpretations) issued or adopted by the IASB. This [Draft] ECA relates to amendments to those standards.

## Approach to the endorsement criteria

1.3 This [Draft] ECA assesses the criteria above in the following order:

- a) Whether the Standard meets the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)). We refer to these criteria collectively as the 'technical accounting criteria' (refer to [Section 3](#)).
- b) Whether use of the Standard is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment (refer to [Section 4](#)). They are:
  - i. whether the Standard is likely to improve the quality of financial reporting;
  - ii. the costs and benefits that are likely to result from the use of the Standard; and
  - iii. whether the use of the Standard is likely to have an adverse effect on the economy of the UK, including on economic growth.
- c) Whether the Standard is not contrary to the principle that an entity's accounts must give a true and fair view (Regulation 7(1)(a)) (refer to [Section 5](#)).

### Technical accounting criteria: Relevance, Reliability, Understandability and Comparability<sup>9</sup>

1.4 A description of the technical accounting criteria<sup>10</sup> is provided below:

<sup>9</sup> Refer to [Section 3](#) Technical accounting criteria assessment.

<sup>10</sup> These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

Technical criteria assessment	
<b>Relevance</b>	Information is <b>relevant</b> if it is capable of making a difference in the decision-making of users or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.
<b>Reliability</b>	Financial information is <b>reliable</b> if, within the bounds of materiality, it: <ul style="list-style-type: none"> <li>a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;</li> <li>b) is complete; and</li> <li>c) is free from material error and bias.</li> </ul>
<b>Understandability</b>	Financial information should be readily <b>understandable</b> by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.
<b>Comparability</b>	Information is <b>comparable</b> if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

- 1.5 In conducting the overall assessment against the technical accounting criteria, the UKEB adopts an absolute, rather than a relative, approach. This means that this is an absolute assessment against the criteria (does IFRS 18 provide information that *is* understandable, relevant, reliable and comparable?) rather than a relative one (does IFRS 18 provide information that is *more* understandable, relevant, reliable and comparable than current, or any other, accounting?).
- 1.6 When the assessment of any individual aspect or requirement of IFRS 18 uses comparative language (e.g. 'more comparable'), the objective is not to reflect a real comparison in relative terms, but to explain that that individual aspect or requirement has the potential to "enhance" one or more of the qualitative characteristics.
- 1.7 A comparative consideration of whether IFRS 18 is likely to improve the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in [Section 4](#).
- 1.8 As explained in [Section 3](#) the assessment of the technical accounting criteria considers all principal aspects of IFRS 18. However, in the interest of efficiency and effectiveness the UKEB has reported a detailed analysis against the technical accounting criteria only in relation to significant issues (an 'exceptions-based approach').

## Whether IFRS 18 is likely to be conducive to the long term public good in the UK<sup>11</sup>

- 1.9 Regulation 7(2) of SI 2019/685 sets out certain matters that are required to be considered in the assessment of whether a standard is likely to be conducive to the long term public good in the UK. These are:

“[...]

- a) whether the use of the standard is likely to improve the quality of financial reporting;
- b) the costs and benefits that are likely to result from the use of the standard; and
- c) whether the use of the standard is likely to have an adverse effect on the economy of the United Kingdom, including on economic growth.”

- 1.10 When assessing **whether the use of IFRS 18 is likely to improve the quality of financial reporting**, the UKEB performs a relative assessment of whether the information required by IFRS 18 is likely more understandable, relevant, reliable and comparable than that specified by IAS 1 *Presentation of Financial Statements*.
- 1.11 When assessing **the costs and benefits that are likely to result from the use of IFRS 18** the UKEB considers both the initial direct costs/benefits associated with the implementation of IFRS 18 as well as the expected ongoing costs and benefits over future years. This allows an assessment of the economic effects over the longer-term, consistent with the assessment of the long-term public good in the UK.
- 1.12 When assessing **whether the use of IFRS 18 is likely to have an adverse effect on the economy of the United Kingdom, including on economic growth**, the UKEB assesses the potential impact of the standard beyond direct costs and benefits, including capital market effects (e.g. cost of capital), microeconomic factors such as products, pricing and competition, and the national economy.

## True and fair view assessment<sup>12</sup>

- 1.13 The first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

<sup>11</sup> Refer to [Section 4](#) UK long-term public good assessment.

<sup>12</sup> Refer to [Section 5](#) True and fair view assessment.



“[...] the standard is not contrary to either of the following principles—

- a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
- b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [...]"

- 1.14 For the sake of brevity, the UKEB refers to the assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that the assessment has considered anything other than the full terms of the endorsement criterion set out above.
- 1.15 The duty of the UKEB under Regulation 7(1)(a) is to determine generically whether that standard is 'not contrary' to the true and fair principle before a standard is applied to a set of accounts. In other words, it is an ex-ante assessment. The UKEB has therefore considered whether IFRS 18 contains any requirement that would prevent accounts prepared using IFRS 18 from giving a true and fair view.
- 1.16 The approach is to determine whether IFRS 18 is not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of IFRS 18 taken as a whole, including its interaction with other UK-adopted international accounting standards.
- 1.17 For the purposes of the assessment, the UKEB considers the requirement in paragraph 15 of IAS 1 for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity'<sup>13</sup> to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.
- 1.18 This assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

## [Draft Adoption decision]

- 1.19 [Sections [3](#), [4](#) and [5](#) discuss whether IFRS 18 meets the requirements for adoption described in [Section 1](#).

<sup>13</sup> IFRS 18 moved paragraph 15 of IAS 1 to IAS 8 (as paragraph 6A) and changed the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors to Basis of Preparation of Financial Statements*. Text moved to IAS 8 was left unchanged. This change is effective on 1 January 2027.

- 1.20 On the basis of these assessments, and subject to any stakeholder feedback, the UKEB [tentatively] concludes that IFRS 18 meets the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt IFRS 18 for use in the UK.]

## Does IFRS 18 lead to a significant change in accounting practice?

- 1.21 A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

"[...]

- a) carry out a review of the impact of the adoption of the standard; and
- b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)."

- 1.22 [Section 6](#) of the [Draft] ECA discusses whether IFRS 18 leads to a significant change in accounting practice.

## 2. Section 2: Main requirements in IFRS 18

### Introduction

- 2.1 This section describes:
- a) the entities in scope for the assessment of IFRS 18.
  - b) the main requirements in IFRS 18 and what has changed, including an overview of the elements imported from IAS 1 *Presentation of Financial Statements* without change.

### Background

- 2.2 IFRS 18 is a new IFRS Accounting Standard aimed at improving how entities communicate their financial performance in their financial statements and replaces IAS 1. The IASB developed IFRS 18 in response to strong demand from stakeholders, particularly from users of financial statements, for improvements to the reporting of financial performance.
- 2.3 The IASB did not reconsider all aspects of IAS 1 when developing IFRS 18 but focused on the statement of profit or loss.
- 2.4 IFRS 18 does not change how entities recognise and measure items in the financial statements.
- 2.5 The objective of IFRS 18 is as follows:
- “1 This Standard sets out requirements for the presentation and disclosure of information in *general purpose financial statements* (financial statements) to help ensure they provide relevant information that faithfully represents an entity’s assets, liabilities, equity, income and expenses”.
- 2.6 Paragraphs 10–12 of IFRS 18 define a complete set of financial statements as follows:

“10 A complete set of financial statements comprises:

- a) a statement (or statements) of financial performance for the reporting period [...];
- b) a statement of financial position as at the end of the reporting period;
- c) a statement of changes in equity for the reporting period;
- d) a statement of cash flows for the reporting period;
- e) notes for the reporting period;
- f) comparative information in respect of the preceding period [...];
- g) a statement of financial position as at the beginning of the preceding period [...].”

2.7 Paragraphs 11–12 of IFRS 18 further explain that:

“11 The statements listed in paragraphs 10(a)–10(d) (and their comparative information) are referred to as the *primary financial statements*. [...].”

“12 An entity shall present its statement(s) of financial performance as either:

- a) a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections [...]
- b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss [...].”

## Entities in scope for the assessment of IFRS 18

- 2.8 All entities that prepare financial statements using UK-adopted international accounting standards are required to apply IFRS 18 retrospectively from 1 January 2027 with earlier application permitted (subject to the UKEB adoption in the UK).
- 2.9 This analysis considers all entities listed on the London Stock Exchange (LSE)<sup>14</sup> using IFRS Accounting Standards for 2023 year-ends. The entities considered have the following characteristics (see information below):

<sup>14</sup> UK law and the Financial Conduct Authority’s Disclosure Guidance and Transparency Rules require the application of UK-adopted international accounting standards in the consolidated financial statements of UK companies whose securities are admitted to trading on a UK-regulated market. UK companies with equity listed on the Alternative Investment Market (AIM) need to produce consolidated financial statement in accordance with UK-adopted international accounting standards even if AIM is not a regulated market as per AIM rules (AIM Rule 19). See information on the IASB website and Deloitte IAS Plus and FCA Listing Rules.

**Table 1: Characteristics of entities in scope**

<b>Number of listed entities</b>	Approximately 1,400 (including 300 stand-alone funds and trusts) that prepare their financial statements in accordance with UK-adopted international accounting standards.
<b>Total assets (FY 2023)</b>	£12.4 trillion
<b>Total revenues (FY 2023)</b>	£2.12 trillion
<b>Market capitalisation</b>	£2.65 trillion

Source: Thomson Reuters-Eikon. It is important to note that approximately 14,000 unlisted entities take the option in UK law to use UK-adopted International Accounting Standards (source: UKEB estimates based on FAME, Companies Watch and other proprietary data).

- 2.10 It is acknowledged that unlisted entities that use UK-adopted international accounting standards are in scope of IFRS 18. This [Draft] ECA does not explicitly consider them in the assessment as they will be subject to the same considerations as listed entities.<sup>15</sup>

### Entities with specified main business activities

- 2.11 IFRS 18 includes specific requirements for entities that have specified main business activities. These are entities that<sup>16</sup>:
- a) **Invest in assets as a main business activity** (e.g. investment entities as defined by IFRS 10 *Consolidated Financial Statements*, investment property entities and insurers).
  - b) **Provide financing to customers as a main business activity** (e.g. banks and other lending institutions, entities that provide financing to customers to enable those customers to buy an entity's products or lessors that provide financing to customers in finance leases).
- 2.12 Entities in the **Banking, Insurance, Financial Services and Real Estate** sectors are expected to have specified main business activities. In the UK, **roughly 30% of UK-listed entities** belong to one of these sectors. **Table 2** provides further detail.

<sup>15</sup> Approximately 14,000 unlisted entities take the option in UK law to use UK-adopted international accounting standards (source: UKEB estimates based on FAME, Companies Watch and other proprietary data). It is acknowledged that unlisted entities are in scope of IFRS 18. However, this is an unconsolidated figure, and the exact number of unlisted groups applying UK-adopted international accounting standards is unknown. Unlisted entities will normally be subject to the same considerations as listed entities.

<sup>16</sup> The examples below are based on paragraphs B31–B32 of IFRS 18.

**Table 2: Industries most likely to have specified main business activities**

	Number of entities	Proportion of listed entities	Market cap (£ billion)	Proportion of market cap
<b>Banks &amp; Financial Services</b>	328	24%	564	21%
<b>Life and non-life insurance</b>	17	1%	77	3%
<b>Real Estate</b>	72	5%	63	2%
<b>Total</b>	<b>417</b>	<b>30%</b>	<b>704</b>	<b>26%</b>
All other industries	983	70%	1,946	74%
<b>Grand total</b>	<b>1,400</b>	<b>100%</b>	<b>2,650</b>	<b>100%</b>

Source: UKEB calculations based on Reuters-Eikon data February 2025

- 2.13 The market capitalisation of entities in these sectors was approximately £704 billion, 26% of the total market capitalisation of the LSE.
- 2.14 This analysis does not include entities in other industries that may also undertake specified main business activities, such as entities that provide financing to enable those customers to buy the entity's products or lessors that provide financing to customers in finance leases (paragraphs B32(b)–(c) of IFRS 18)<sup>17</sup>.
- 2.15 Consequently, the prevalence of entities with specified main business activities is expected to be higher.
- 2.16 IFRS 18 also contains specific requirements for entities that have:
- a) Investments in associates and joint ventures accounted for using the equity method ('equity-accounted investments').
  - b) Non-controlling interests.
- 2.17 The UKEB Secretariat analysed Reuters-Eikon data to ascertain the prevalence of these among UK-listed entities. The prevalence of equity-accounted investments is discussed in paragraphs B13–B14. The prevalence of non-controlling interests is discussed in paragraph B40.

<sup>17</sup> For example, an entity that sells heavy machinery may lease equipment to customers under a lease.



## Main requirements in IFRS 18

2.18 IFRS 18 includes 282 paragraphs<sup>18</sup>. As indicated in **Table 3** below, some paragraphs were imported from IAS 1 or based on IAS 1.

**Table 3: Paragraphs in IFRS 18**

	# of paragraphs in IFRS 18	%
<b>New paragraphs in IFRS 18</b>	159	56%
Paragraphs brought forward from IAS 1 into IFRS 18 <b>unchanged or with minor revisions</b> [(i) in <b>Table 4</b> ]	91	32%
Paragraphs based on IAS 1 but <b>substantially changed and replaced</b> by new requirements in IFRS 18 [(iii) in <b>Table 4</b> ]	32	12%
<b>Standard, Appendix B and C total</b>	<b>282</b>	<b>100%</b>

## Overview of the elements imported from IAS 1

2.19 IAS 1 includes 158 paragraphs that were either brought forward unchanged or with minor revisions into IFRS 18, IFRS 7 *Financial Instruments: Disclosures* or IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*<sup>19</sup>; or, substantially changed and replaced by new requirements in IFRS 18. This is shown in **Table 4** below.

**Table 4: Paragraphs in IAS 1**

	# of paragraphs in IAS 1	%
<b>IAS 1 paragraphs brought forward unchanged or with minor revisions into:</b>		
(i) IFRS 18	91	58%
(ii) IAS 8 or IFRS 7	35	22%
<b>Subtotal</b>	<b>126</b>	<b>80%</b>
(iii) IAS 1 paragraphs that were substantially changed and replaced by new requirements in IFRS 18	32	20%
<b>Total</b>	<b>158</b>	<b>100%</b>

<sup>18</sup> This is considering the main body of the Standard and Appendices B (application guidance) and C (Effective date and transition).

<sup>19</sup> IFRS 18 changed the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors* to *Basis of Preparation of Financial Statements*. Text moved from IAS 1 to IAS 8 was left unchanged. This change is effective on 1 January 2027.

2.20 **Table 5** below provides an overview of the main topics in IAS 1 that were brought forward into IFRS 18, IFRS 7 or IAS 8.

**Table 5: Main topics in IAS 1 brought forward unchanged into IFRS 18, IFRS 7 or IAS 8**

	Main topic
<b>General features of the financial statements</b>	<ul style="list-style-type: none"> <li>• Going concern and accrual basis of accounting (moved to IAS 8).</li> <li>• Offsetting.</li> <li>• Frequency of reporting.</li> <li>• Comparative information.</li> <li>• Consistency of presentation.</li> <li>• Identification of the financial statements.</li> </ul>
<b>Content of the primary financial statements</b>	<ul style="list-style-type: none"> <li>• Information in the statement of financial position:               <ul style="list-style-type: none"> <li>○ list of line items (including presentation of tax expenses and a single amount for the total of discontinued operations); and</li> <li>○ current/non-current distinction of assets or liabilities.</li> </ul> </li> <li>• Information in the statement of financial performance:               <ul style="list-style-type: none"> <li>○ list of line items, presentation of the profit or loss and other comprehensive income (OCI) totals;</li> <li>○ allocations of profit or loss to non-controlling interests (NCIs) and to owners of the parent; and</li> <li>○ information to be presented in the OCI section.</li> </ul> </li> <li>• Information in the statement of changes in equity and requirements for share capital and other reserves.</li> </ul>
<b>Content of the notes</b>	<ul style="list-style-type: none"> <li>• Structure.</li> <li>• Disclosure of accounting policy information (moved to IAS 8).</li> <li>• Sources of estimation uncertainty (moved to IAS 8).</li> <li>• Puttable financial instruments classified as equity (moved to IFRS 7).</li> <li>• Capital disclosures.</li> </ul>

## Overview of the main requirements in IFRS 18 (and what has changed)

- 2.21 IFRS 18 introduces new presentation and disclosure requirements and more detailed guidance in the form of application guidance which IAS 1 did not have. The following section discusses the main requirements in IFRS 18 and what has changed (for example, in respect of the requirements in IAS 1).
- a) Specified categories and required subtotals in the statement of profit or loss.
  - b) Mandatory disclosures about management-defined performance measures (or 'MPMs') in a single note.
  - c) Enhanced requirements on the aggregation, disaggregation, location and labelling of items across the primary financial statements and the notes.
- 2.22 IFRS 18 also:
- a) Makes limited amendments to IAS 7 *Statement of Cash Flows*<sup>20</sup> and to the statement of financial position.
  - b) Includes transition requirements.

### Specified categories and required subtotals in the statement of profit or loss

#### Specified categories

- 2.23 IFRS 18 requires entities to classify income and expenses into five categories, three of which are new (i.e. operating, investing and financing). This is a departure from IAS 1, which does not have a requirement to classify income and expenses into "classes" or "categories". These categories are discussed below:
- a) *the operating category* (paragraph 52 of IFRS 18) includes income and expenses (i) not classified in the investing, financing, income taxes or discontinued operations categories including income and expenses that are volatile, unusual or non-recurring (i.e. default category); and (ii) arising from a company's main business activities if they do not meet the requirements to be classified in any of the other categories;
  - b) *the investing category* (paragraphs 53–58 of IFRS 18) includes income and expenses from: (i) investments in associates, joint ventures and unconsolidated subsidiaries. This classification is irrespective of whether an entity invests in assets as a main business activity; (ii) cash and cash

<sup>20</sup> IFRS 18 also made some minor consequential amendments to other IFRS Accounting Standards (i.e. IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Statements*), but these amendments are not specifically addressed in this [Draft] ECA.

equivalents; and (iii) other assets that generate a return individually and largely independently of the company's other resources;

- c) *the financing category* (paragraphs 59–66 of IFRS 18) includes income and expenses from:
  - i. liabilities arising from transactions that *involve only* the raising of finance (e.g. interest expenses on debt instruments issued); and
  - ii. liabilities (other than those described in (c)(i) above) arising from transactions that *do not involve only* the raising of finance.
- d) *income taxes* (paragraph 67 of IFRS 18), include tax expense or tax income included in the statement of profit or loss applying IAS 12 *Income Taxes*; and any related foreign exchange differences; and
- e) *discontinued operations* (paragraph 68 of IFRS 18) include income and expenses from discontinued operations required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.24 IFRS 18 also includes requirements for the classification of certain items of income and expense. In this respect:

- a) Foreign exchange differences are classified in the same category as the income and expenses from the items that gave rise to those differences. If an entity cannot allocate these differences to the applicable categories without undue cost or effort the entity can classify the affected differences in the operating category (paragraphs B65–B68 of IFRS 18).
- b) Gains and losses on derivatives are classified depending on whether the derivatives are used to manage exposure to identified risks and whether they are designated as hedging instruments. IFRS 18 provides undue cost or effort relief for the classification of gains or losses on derivatives used to manage identified risks but not designated as hedging instruments (paragraphs B70–B76 of IFRS 18).
- c) Income and expenses from hybrid contracts comprising host liabilities and embedded derivatives are classified depending on whether the embedded derivative is separated from the host liability and the nature of the hybrid contract (paragraphs B56–B57 of IFRS 18).
- d) Income and expenses arising from the derecognition of an asset or a liability are classified in the same category as the entity classified the income and expenses from the asset (or liability) immediately before its derecognition. For example, gains and losses on the disposal of property, plant and equipment will be classified in the operating category (paragraphs B60–B61 of IFRS 18).

## Requirements for entities with specified main business activities

- 2.25 An entity is required in accordance with paragraph 49 of IFRS 18 to assess whether it has either (or both<sup>21</sup>) of the following specified main business activities:
- a) investing in particular type of assets; and/or
  - b) providing financing to customers.
- 2.26 As an exception to the general classification requirements, paragraphs 55–58 and 65–66 of IFRS 18 require entities with a specified main business activity to classify in the operating category some of their income and expenses that would otherwise have been included in investing or financing categories. This would allow entities with specified main business activities to present key measures of performance in the operating category.

## Required subtotals, items to be presented in the primary financial statements and presentation of additional line items and subtotals

- 2.27 IFRS 18 brings forward from IAS 1 the requirement to present totals for profit or loss and for other comprehensive income. IFRS 18 requires the presentation of two new subtotals—'operating profit or loss' and 'profit or loss before financing and income taxes' (paragraph 69 of IFRS 18)<sup>22</sup>.
- 2.28 IFRS 18 brings forward from IAS 1 the requirement to present separately in the primary financial statements specific line items (e.g. paragraphs 75 and 103 of IFRS 18), but only if the line item is necessary to provide a useful structured summary. Otherwise, the line item is disclosed in the notes if it provides material information (paragraphs 23–24, 42 and B8 of IFRS 18).
- 2.29 An entity can present additional line items and subtotals subject to the requirements in paragraph 24 of IFRS 18: for example, if such presentation provides a useful structured summary; or, if the additional line items or subtotals fit the specified structure of the primary financial statements.

## Disclosures about management-defined performance measures (MPMs)

- 2.30 UK entities that currently report Alternative Performance Measure or 'APMs' generally use the guidelines issued by the European Securities and Markets Authority's Guidelines on Alternative Performance Measures (ESMA APM

<sup>21</sup> Some entities, for example investment and retail banks, may have both specified main business activities (i.e. investing in assets and providing financing to customers).

<sup>22</sup> An entity that provides financing to customers as a main business activity and that makes an accounting policy choice to classify in the operating category income and expenses from all liabilities that arise from transactions that involve only the raising of finance cannot present this subtotal.

guidelines)<sup>23, 24</sup>. These guidelines are considered best practice<sup>25</sup> but do not constitute mandatory requirements.<sup>26</sup> The location of these measures varies in the UK but generally entities place their APMs in the annual report outside the financial statements<sup>27</sup>.

- 2.31 IFRS 18 requires the integration of a subset of APMs (i.e. those that meet the definition of an MPM) as part of an entity's financial statements. An MPM is defined in paragraph 117 of IFRS 18 as a subtotal of income and expense used in public communications outside financial statements that communicates management's view of an aspect of the financial performance of the entity as a whole to users and that is not listed in paragraph 118 of IFRS 18 or specifically required by IFRS Accounting Standards. There is a presumption in paragraph 119 of IFRS 18 that a subtotal of income and expenses, that an entity uses in public communications outside its financial statements, communicates to users of financial statements the management's view of an aspect of the financial performance of the entity as a whole. This presumption can be rebutted with reasonable and supportable information (paragraph 120 of IFRS 18).
- 2.32 Paragraphs 122–123 of IFRS 18 require an entity to disclose information about all its MPMs in a single note to the financial statements, including:
- a) a description of the aspect of financial performance that it communicates, including why management believes the MPM provides useful information about the entity's financial performance;
  - b) a description of how the MPM is calculated;
  - c) a reconciliation between the MPM and the most directly comparable subtotal listed in paragraph 118 of IFRS 18 or total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards. This includes the disclosure of the income tax effect and the effect on non-controlling interests (NCIs) for each item disclosed in the reconciliation; and
  - d) a description of how the company determined the income tax effect.
- 2.33 Furthermore, if an entity changes the calculation of an MPM, introduces a new MPM or ceases to use a previously disclosed MPM, it is required to disclose in accordance with paragraph 124 of IFRS 18 an explanation of the change, the

<sup>23</sup> [ESMA APM guidelines](#), 5<sup>th</sup> October 2015

<sup>24</sup> As mentioned in FRC's [Thematic Review: Alternative Performance Measures \(APMs\)](#) (October 2021), the ESMA APM guidelines are considered to provide helpful guidance and reflect best practice.

<sup>25</sup> Section 2 of Financial Reporting Council (FRC)'s [Thematic Review: Alternative Performance Measures \(APMs\)](#) (October 2021).

<sup>26</sup> Paragraph 9 of Financial Conduct Authority's publication [Brexit: our approach to EU non-legislative materials](#) (October 2020) states that "...we consider that the EU non-legislative material will remain relevant post-IPCD".

<sup>27</sup> Refer to: [An alternative picture of performance](#), PwC (January 2016).



reasons for the change and provide restated comparative information (unless it is impracticable).

## Requirements on aggregation and disaggregation

- 2.34 IAS 1 required the presentation or disclosure of material information<sup>28</sup>. IFRS 18 builds on these requirements by introducing new and defined roles for the primary financial statements and for the notes which an entity considers in providing material information:
- a) The role of the primary financial statements is to provide useful structured summaries of an entity's recognised assets, liabilities, equity, income, expenses and cash flows (paragraph 16 of IFRS 18); and
  - b) The role of the notes is to provide material information necessary to enable investors to understand the items in the primary financial statements; and to supplement the primary financial statements with additional information to achieve the objective of the financial statements (paragraph 17 of IFRS 18).
- 2.35 IFRS 18 also:
- a) Introduces principles for aggregating and disaggregating information with reference to similar and dissimilar characteristics and provides application guidance to assist entities in making these judgements (paragraph 41 of IFRS 18).
  - b) Requires entities to determine how to label and describe the items presented and disclosed. For example, to consider whether a more informative label exists before labelling items as 'other' (paragraph 43 of IFRS 18).
  - c) Provides enhanced guidance to assess how to present operating expenses in the statement of profit or loss based on either the nature of expenses or the function of the expenses within the entity. An entity can also provide a 'mixed presentation' (i.e. by classifying some expenses by function and others by nature), if this provides the most useful structured summary (paragraph 78 of IFRS 18).
  - d) Requires an entity presenting expenses classified by function in the operating category of the statement of profit or loss to disclose in a single note additional information by nature (paragraph 83 of IFRS 18). This requirement is limited to five specified expenses by nature: depreciation, amortisation, employee benefits, impairment losses (and reversals of impairment losses) and write-downs of inventories (and reversals of write-

<sup>28</sup> For example, paragraphs 29–31 of IAS 1 include general requirements for the aggregation and disaggregation of information in the primary financial statements and the notes, including a requirement for an entity to present separately each 'material class of similar items'.

downs of inventories). The amounts presented or disclosed need not be the amounts recognised as an expense in the period. They could include amounts that have been recognised as part of the carrying amount of an asset (paragraph B84 of IFRS 18)<sup>29</sup>.

## Limited changes to the statement of cash flows

### Starting point for the indirect method

- 2.36 Paragraph 20 of IAS 7 requires the use of the 'profit or loss' total as the starting point for the indirect reconciliation of cash flows from operating activities. The Illustrative examples accompanying IAS 7, however, use 'profit before tax' as the starting point for determining net cash flows from operating activities, which has led to diversity of practice.
- 2.37 IFRS 18 amends paragraph 20 of IAS 7 to require all entities to use the operating profit subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

### Classification of interest and dividends paid and/or received

- 2.38 Paragraphs 31–34 of IAS 7 allow entities to choose how to present cash flows arising from interest and dividends, leading to significant diversity in practice in the presentation of these line items.
- 2.39 IFRS 18 amends paragraphs 31–34 of IAS 7 to remove the presentation alternatives for cash flows related to interest and dividends paid and received. For all entities IAS 7 (as amended by IFRS 18) requires the classification of dividends paid as cash flows from financing activities. The approach to the classification of interest paid and interest and dividends received depends on whether an entity has a specified main business activity as follows:
- a) For an entity *without* a specified main business activity, IAS 7 requires the classification of interest paid as cash flows from financing activities (including interest capitalised as part of the costs of an asset applying IAS 23 *Borrowing Costs*). Interest and dividends received are classified as cash flows from investing activities.
  - b) For an entity *with* a specified main business activity, IAS 7 requires the classification of dividends received, interest paid and interest received in a single category in the statement of cash flows (operating, investing or financing activities). IAS 7 requires that this classification be consistent with the classification of the income and expenses corresponding to such cash flows. If an entity classifies related income and expenses in more than one category of the statement of profit or loss, an entity should make

<sup>29</sup> This is done for simplification purposes. For example, applying paragraph 39 of IAS 2 *Inventories*, an entity might present a line item for changes in inventories of finished goods and work in progress.

an accounting policy choice to classify the cash flows in one of the corresponding categories of the statement of cash flows.

## Limited changes to the statement of financial position

2.40 Paragraph 103(d) of IFRS 18 adds a requirement to present goodwill separately.

## Transition requirements

- 2.41 Paragraph C2 of IFRS 18 requires an entity to apply IFRS 18 retrospectively applying IAS 8 and to restate comparative information for the prior year presented.
- 2.42 If an entity applies IAS 34 *Interim Financial Reporting* in preparing condensed interim financial statements in the first year of applying IFRS 18, it is required to present the headings that it expects to use in applying IFRS 18 and subtotals consistent with the requirements in IFRS 18. In addition, an entity is required to disclose reconciliations for each line item presented in the statement of profit or loss for the comparative periods immediately preceding the current and cumulative current periods.
- 2.43 At the date of initial application of IFRS 18, an entity eligible to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures* is permitted by paragraph C7 of IFRS 18 to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*<sup>30</sup>. If an entity makes such a change, the entity shall apply the change retrospectively by applying IAS 8. An entity applying paragraph 11 of IAS 27 *Separate Financial Statements* is required to make the same change in its separate financial statements.

<sup>30</sup> Paragraph 18 of IAS 28 permits an entity which has an investment in an associate or a joint venture that is held by or indirectly through, a venture capital organisation, mutual fund, unit trust and similar entities to measure this investment at fair value through profit or loss in accordance with IFRS 9.

## 3. Section 3: Technical accounting criteria assessment

### Introduction

- 3.1 This section addresses whether IFRS 18 meets the technical accounting criteria and explains the approach to the assessment of these criteria.

### Approach to the assessment against the technical accounting criteria

- 3.2 SI 2019/685 requires an assessment of whether IFRS 18 meets the following criteria in regulation 7(1)(c):

“...(c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.”

- 3.3 These criteria are referred collectively as the ‘technical accounting criteria’. An explanation of the basis for and our interpretation of the technical accounting criteria is provided in [Section 1](#). This section sets out the principal aspects of IFRS 18 and assesses those requirements against the technical accounting criteria.
- 3.4 The assessment against the technical accounting criteria considers IFRS 18 as a whole, including the requirements carried over from IAS 1 *Presentation of Financial Statements*.<sup>31</sup> However, in the interest of efficiency and effectiveness a detailed analysis against these criteria is reported only in relation to specific technical issues where UK stakeholders raised some practical challenges (an ‘exceptions-based approach’). These issues are analysed in [Appendix B](#) against the technical accounting criteria and are the:
- a) Classification of income and expenses from associates and joint ventures accounted for using the equity method in the investing category.
  - b) Accounting policy choice for the classification of income and expenses for entities that provide financing to customers.

<sup>31</sup> IAS 1 was originally adopted in the European Union (of which we were part before 2021) on 29 September 2003. Refer to: [Commission Regulation \(EC\) No 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation \(EC\) No 1606/2002 of the European Parliament and of the Council \(Text with EEA relevance\).](#)

- c) Disclosure of the income tax effect and the effect on non-controlling interests (NCI) in the management-defined performance measure reconciliation.
- 3.5 In conducting this overall assessment against the technical accounting criteria the UKEB is required to adopt an absolute, rather than a relative, approach.
- 3.6 Outreach [to date] has provided assurance that there are no further issues that UK stakeholders consider need to be addressed in the [Draft] ECA.
- 3.7 The UKEB notes that the IASB issued IFRS 18 after reaching an overall consensus, following extensive consultations with a wide range of constituents, including those from the UK. The main rationale behind the final IASB decisions is described in the Basis for Conclusions of IFRS 18 and has been used as part of the technical criteria assessment. The UKEB recognises that IFRS 18 is intended to define principle-based requirements which could be applied in a consistent manner across entities and industries.
- 3.8 The UKEB's overall [tentative] conclusion on whether IFRS 18 as a whole meets the technical accounting criteria is set out at the end of this section.

## Assessment of main requirements in IFRS 18

- 3.9 This section includes an assessment of the main requirements of IFRS 18 against the technical accounting criteria. For a detailed description of these requirements refer to [Section 2](#) of this [Draft] ECA.
- 3.10 Input for this assessment was obtained from:
  - a) A review of the survey results from the UKEB Preparer survey and from the UKEB User survey (including feedback from listed small- and medium-cap entities) and from the UKEB's webinar poll.
  - b) Engagement with UKEB Advisory Groups and with its Financial Instruments Working Group.
  - c) Interviews with preparers (including with preparers from listed small- and medium-cap entities) and users.
  - d) A desktop analysis of the requirements in IFRS 18 and the basis for these requirements.
- 3.11 Overall, the UKEB received positive feedback from stakeholders that IFRS 18 leads to financial information that is understandable, relevant, reliable and comparable.

## Specified categories and required subtotals in the statement of profit or loss

### Accounting impact

- 3.12 The requirements for the classification of income and expenses in separate categories (and specific classification rules depending on the entity's main business activities) and for the presentation of specific subtotals are expected to reduce diversity in practice and enhance users' ability to understand and compare information across different companies.<sup>32</sup>
- 3.13 IFRS 18 requires all entities to present an 'operating' category which is a residual category. This will have an impact on how entities report their operating results. For example, entities will not be able to exclude from the operating category income and expenses that are volatile, unusual or non-recurring<sup>33</sup>. Any change in an entity's definition of operating profit may also require investors to make changes to the calculation of their metrics.
- 3.14 The impact of the new presentation and classification requirements and subtotals will depend on an entity's current reporting practices. If an entity's practices differ from the new classification requirements for income and expenses, an entity may incur higher costs to implement any necessary changes to their current systems. However, some of these costs may be reduced through the application of classification reliefs for 'undue cost or effort' applicable to specific income and expenses<sup>34</sup>.
- 3.15 Practical challenges that may arise as IFRS 18 is implemented are as follows:
- a) The classification of income and expenses in the operating category may differ for entities already presenting an operating profit subtotal. For example, evidence from the Preparer survey showed that some entities currently present the share of the profit or loss of associates and joint ventures accounted for using the equity method in the operating category, which is not permitted in IFRS 18<sup>35</sup>.
  - b) The new structure of the statement of profit or loss may change the subtotals that are currently used for determining management incentives, income tax or compliance with covenants.
  - c) For conglomerates with diverse business activities, determining the 'main business activity' may be challenging.

<sup>32</sup> Refer to paragraph BC3(a) in the Basis for Conclusions of IFRS 18.

<sup>33</sup> Entities can provide additional information about aspects of their financial performance through the presentation of additional line items, further disaggregation or the disclosure of MPMs (e.g. the presentation of an adjusted operating profit subtotal that excludes non-recurring or unusual expenses).

<sup>34</sup> Some of these classification reliefs are described in paragraph 2.24.

<sup>35</sup> Refer to the discussion in [Appendix B](#) (Issue 1: *Classification of income and expenses from associates and joint ventures accounted for using the equity method in the investing category*).



## Assessment against the endorsement criteria

- 3.16 The new requirements for specified categories and required subtotals will provide investors with **relevant** and **reliable** information to make informed decisions as the evidence obtained from the UKEB surveys suggests that the new structure in the statement of profit or loss better aligns with how investors analyse the statement of profit or loss.
- 3.17 Feedback from the UKEB User survey indicated that the introduction of new specified categories and required subtotals such as 'operating profit' will give investors:
- a) a **comparable** and consistent starting point for their analyses given that currently IAS 1 does not provide a structure to the statement of profit or loss or require the presentation of an 'operating profit' subtotal;
  - b) additional useful information about the entity's operating performance and its performance before the effect of financing. This will result in more **relevant** and **reliable** information for users' decision making; and
  - c) a better **understanding** of the drivers of financial performance. This should improve users' ability to **compare** performance between entities and between reporting periods for the same entity.
- 3.18 The use of the operating category as the 'default' category, will also ensure that all income and expenses from an entity's main business activities (including any non-recurring, unusual or volatile items), are presented in the same category, which also facilitates **comparability** between entities.
- 3.19 IFRS 18 prescribes the classification of certain items of income and expense and exceptions to the general classification requirements for entities with specified main business activities. For example, IFRS 18 allows an accounting policy choice for the classification of income and expenses for entities that provide financing to customers. Having exceptions to the general classification principles may introduce a risk to the **comparability** of the information presented. However, these requirements were developed to ensure that investors obtain **relevant** and useful information about an entity's performance.

## Disclosures about management-defined performance measures (MPMs)

### Accounting impact

- 3.20 IFRS 18 requires the integration of APMs that meet the definition of MPMs in a single note as part of an entity's financial statements<sup>36</sup>. Entities already disclosing information about APMs may need to revisit those APMs that are used in public

<sup>36</sup> For a further description of these requirements see paragraphs 2.31–2.33.

communications as some may meet the definition of MPMs and will need to be disclosed in the financial statements. Feedback received from the UKEB's outreach activities revealed that listed small- and medium-cap entities tend to present a high number of these measures in their annual reports. Therefore, it is expected that these entities will be revisiting their performance measures to comply with the MPM requirements.

- 3.21 Feedback from the UKEB Preparer survey and from the UKEB User survey (referred to as "UKEB surveys") supports the MPM requirements as the required disclosures around MPMs and disclosing these measures in a single note will bring discipline, transparency and confidence to those measures<sup>37</sup>.
- 3.22 Feedback from the UKEB Preparer survey showed that UK current practices for communicating performance measures are mostly aligned with the requirements for MPMs. However, the introduction of MPM requirements is expected to result in changes to:
- a) **How an entity identifies performance measures.** Since MPMs are a subset of APMs, entities will need to carefully consider which of their APMs meet the definition of MPMs in IFRS 18 to subject these measures to the requirements for MPMs<sup>38</sup>. This may require system changes to capture all the performance measures that meet this definition. This may also prompt entities to revisit the purpose and relevance of their own APMs (including MPMs) used in their external communications.
  - b) **The content of what is communicated about each MPM.** IFRS 18 requires additional information that some entities may currently not disclose<sup>39</sup> to enable users understand how a measure is calculated. IFRS 18 permits the use of alternative approaches for calculating the income tax effects for each reconciling item included in the MPM reconciliation to reduce the cost of application<sup>40</sup>.
  - c) **The location of performance measures** (i.e. IFRS 18 requires the disclosure of all MPMs in a single note within the financial statements). This will trigger a change in the location of APMs that meet the definition of MPMs

<sup>37</sup> This has been acknowledged by the IASB in paragraph BC3(c) in the Basis for Conclusions of IFRS 18.

<sup>38</sup> Paragraph 119 of IFRS 18 requires an entity to presume that a subtotal of income and expenses that it uses in its public communications outside its financial statements communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, unless applying paragraph 120, where the entity rebuts the presumption.

<sup>39</sup> For example, IFRS 18 requires the disclosure of information about the income tax effect and the effect on non-controlling interests for each reconciling item in the MPM reconciliation. Issue 3 *Disclosure of the income tax effect and the effect on non-controlling interests in the MPM reconciliation* in [Appendix B](#), analyses the accounting impact of this requirement and provides a separate assessment.

<sup>40</sup> Paragraph B141 of IFRS 18 allows an entity to calculate the income tax effects (a) for the underlying transaction(s) at the statutory tax rate(s) applicable to the particular transaction(s) (i.e. this is considered a 'simplified approach'); (b) based on a reasonable pro-rata allocation of the current and deferred tax of the entity; or (c) using another method that achieves a more appropriate allocation.

and that are currently provided outside the financial statements. MPMs will also be subject to audit.

## Assessment against the endorsement criteria

- 3.23 It is anticipated, based on the results from the UKEB surveys, that the requirements for MPMs will add more discipline, transparency and credibility for these measures, therefore increasing the **relevance** and reliability of these measures for users.
- 3.24 Presenting these measures in a single note to the financial statements will help users locate and access information on MPMs more easily. The disclosure requirements to describe each MPM in a clear and understandable manner will improve users' **understanding** of how entities view their performance<sup>41</sup>. This will also enhance the **reliability** of individual measures because with all this information users are expected to be able to make a complete assessment of these measures. The **reliability** of these measures is also assured via audit.
- 3.25 MPMs are, by definition, entity-specific measures and are not necessarily comparable across entities. However, the requirement in IFRS 18 to provide **comparative** information for all MPM disclosures will make it easier for users to track an entity's performance over time.
- 3.26 The different approaches available to determine the income tax effects of the reconciling items<sup>42</sup> may introduce a risk to the **comparability** and **reliability** of the information presented. However, this could be mitigated by the **relevance** of the information presented, given that the information required to be disclosed about MPMs is useful for users' analyses (e.g. information on income tax and NCI effects, see paragraph B42).

## Aggregation and disaggregation

### Accounting impact

- 3.27 The results from the UKEB surveys reflected that many respondents supported the requirements for aggregating and disaggregating items in the financial statements (including the requirements applicable to the presentation and disclosure of an analysis of operating expenses) as they will bring increased clarity and transparency of the information presented or disclosed. It will also prompt entities to provide more detailed and granular information in their financial statements (for example, about their operating expenses) than they may currently provide.
- 3.28 The disclosure of information about non-recurring or unusual items is also expected to be improved given the requirements in IFRS 18 for disaggregating

<sup>41</sup> This is, by explaining how measures are calculated (e.g. which items are excluded or included from a particular subtotal), what they intend to communicate, how they relate to the financial statements and how they may have changed over time.

<sup>42</sup> See footnote 40.

items with dissimilar characteristics and the requirement to provide more informative labels.

- 3.29 The application of the principles of aggregation and disaggregation may involve the exercise of judgement as they may be interpreted differently, leading to inconsistent application and lack of **comparability**. For example, presenting fewer or more line items in the primary financial statements will depend on an entity considering whether this information provides a useful structured summary.

## Assessment against the endorsement criteria

- 3.30 The **relevance** of financial information is enhanced with consistent principles for aggregation and disaggregation as it will help entities group or disaggregate material information that users can use in their analysis to make predictions or confirm or change evaluations of the past. The guidance on labelling of items should lead to informative and **relevant** description of items, enabling users to **understand** the nature of the items included in the financial statements.
- 3.31 The application guidance in IFRS 18 will also assist entities in making judgements for grouping or disaggregating items based on similar or dissimilar characteristics and for labelling and describing the items presented and disclosed. This will improve the **understandability** and relevance of this information as well as its **reliability** (as it will enhance the faithful representation of the characteristics of each item presented or disclosed).
- 3.32 The degree of judgement involved in the application of the principles for aggregation and disaggregation, may create a risk to the **comparability** and **reliability** of financial statements. However, this is consistent with other requirements in IFRS 18 that require judgement and with other IFRS Accounting Standards that also require the exercise of judgement.
- 3.33 When entities choose to disclose the amounts that have been recognised as part of the carrying amount of an asset in the disclosure of the five specified operating expenses by nature<sup>43</sup> this information may be challenging to **understand** for users (given that an entity will choose to disclose the cost amounts rather than the amounts recognised as an expense in the period). However additional disclosures could mitigate these challenges<sup>44</sup>.

## Limited changes to the statement of cash flows

### Accounting impact

- 3.34 IFRS 18 amends IAS 7 to require operating profit as the starting point for the reconciliation of cash flows under the indirect method. This will remove some of the reconciling items that entities currently present. IFRS 18 also removes the

<sup>43</sup> This is done for simplification purposes in line with paragraph B84 of IFRS 18. See paragraph 2.35(d).

<sup>44</sup> In line with paragraph B84(b) of IFRS 18 an entity is required to provide a qualitative explanation of the amounts disclosed that are not the amounts recognised as an expense in the period.

presentation alternatives for cash flows related to interest and dividends paid and received.

### Assessment against the endorsement criteria

- 3.35 The UKEB expects that requiring entities to use the operating profit subtotal as a consistent starting point will make the statement of cash flows more consistent and help investors analyse and **compare** entities' cash flows. This change will also simplify the presentation of cash flows from operating activities making this information more **relevant** and **understandable**.
- 3.36 The UKEB expects that removing the classification alternatives for cash flows related to interest and dividends paid and received will make the statement of cash flows more consistent and **comparable**. This would also bring **relevant** information for users about the role of interest and dividends in an entity's business activities.

### Overall [tentative] conclusion on whether IFRS 18 meets the technical accounting criteria

- 3.37 In drawing the conclusion as to whether IFRS 18 meets the technical accounting criteria the UKEB has considered:
- a) the main requirements in IFRS 18 (see paragraphs 3.12–3.36 above); and
  - b) specific issues stakeholders have raised, which are set out in [Appendix B](#).
- 3.38 The UKEB [tentative] conclusion is that IFRS 18 sets out clear principles that can be applied to the financial statements and that will result in understandable, relevant, reliable and comparable information for users of the financial statements.
- 3.39 In some cases (including for those issues raised by stakeholders which are addressed in [Appendix B](#)), it will be particularly important for management to provide appropriate disclosures as required both by IFRS 18 and more generally by IFRS Accounting Standards to achieve the objectives of understandability, relevance, reliability and comparability. We have taken account of such disclosure requirements in our assessment and in coming to our conclusion.
- 3.40 Overall, therefore, the UKEB [tentatively] concludes that IFRS 18 meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

## 4. Section 4: UK long term public good assessment

### Introduction

- 4.1 This section analyses whether IFRS 18 is likely to be conducive to the long term public good in the UK. The assessment is based on the following:
- a) An analysis of whether the use of IFRS 18 likely to improve the quality of financial reporting.
  - b) An economic impact assessment, focusing on:
    - i. The costs and benefits of applying IFRS 18.
    - ii. The wider economic effects associated with the application of IFRS 18.
    - iii. The consequences of not adopting IFRS 18 (counterfactual analysis).
- 4.2 Each of the sections above contributes to the Board's overall assessment of whether IFRS 18 is conducive to the long-term public good in the UK.
- 4.3 Appendices [C](#), [D](#) and [E](#) contain information that supplements the analysis in this section.

### Is use of IFRS 18 likely to improve the quality of financial reporting?

#### Approach for this assessment

- 4.4 Regulation 7(2)(a) of SI 2019/685 requires the UK long term public good assessment to consider whether the use of the standard is likely to improve the quality of financial reporting. As explained in paragraph 1.10 of this [Draft] ECA, in conducting this assessment the UKEB adopts a relative approach. This assessment also considers whether IFRS 18 is likely to meet the IASB's objective of improving how companies communicate in their financial statements in response to investor demands for better information about financial performance<sup>45</sup>.

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<sup>45</sup> This objective is mentioned on page 3 of [IASB IFRS 18 Effects Analysis](#).

## Improvements introduced by IFRS 18

- 4.5 The IASB developed IFRS 18 in response to strong demand from stakeholders, particularly from users of financial statements, for improvements to the reporting of financial performance as IFRS Accounting Standards do not have detailed requirements on:
- a) the classification of income and expenses in the statement of profit or loss;
  - b) the subtotals to present above 'profit or loss' in the statement of profit or loss; and
  - c) grouping or disaggregation of information in the primary financial statements and in the notes to the financial statements.
- 4.6 The absence of such requirements has led to diversity in practice, making it difficult for users to analyse and compare companies' performance.
- 4.7 In addition, there are no mandatory requirements around the use of Alternative Performance Measures or 'APMs'<sup>46</sup>.
- 4.8 The following paragraphs highlight the principal areas where IFRS 18 is likely to lead to improvements in the quality of financial reporting for entities in the UK. Relevant feedback from the UKEB surveys<sup>47</sup> has also been reproduced.

### Categories and subtotals

#### New specified subtotals and new structure for the statement of profit or loss

- 4.9 The introduction of new specified subtotals and required categories in the statement of profit or loss is expected to provide users with:
- a) Additional **useful** information about the entity's operating performance and its performance before financing. This will result in **more relevant and reliable information** for users' decision making.
  - b) Improved **comparability** through new required categories (operating, investing and financing) and through a definition of operating profit and a consistent starting point for their analyses. This will also enable users to **understand** financial information more easily as currently IAS 1 *Presentation of Financial Statements* does not provide a structure to the statement of profit or loss.

<sup>46</sup> See paragraph 2.30.

<sup>47</sup> As explained in paragraph 3.10 these surveys were part of UKEB's outreach activities.



- 4.10 The use of the operating category as the 'default' category, will also ensure that all income and expenses from an entity's main business activities are presented in the same category, which will facilitate **comparability** between entities.
- 4.11 These views are shared by respondents to the UKEB surveys:

#### UKEB User survey

Respondents agreed that the new structure and defined subtotals in the income statement will be useful as this will:

- improve users' ability to **compare** performance:
  - between entities (91% of respondents); and
  - between reporting periods for the same entity (86% of respondents);
- improve the **understanding of the drivers of financial performance** (77% of respondents).

#### UKEB Preparer survey

Respondents who agreed with the requirements on defined categories and subtotals [...] observed a number of benefits derived from these requirements. They think that these requirements will:

- help provide more **comparable** information [...] that would help users with their analysis;
- enhance the **understandability** of an entity's business activities.

## Management-defined performance measures

### Enhanced relevance, understandability and reliability of MPM information

- 4.12 The integration of a subset of APMs (i.e. those that meet the definition of an MPM in IFRS 18) as part of an entity's financial information will enhance the **reliability** and **transparency** for users of these measures and will add discipline in the disclosure of these measures.
- 4.13 The requirements on MPMs (e.g. the disclosure of tax and NCI effects in the MPM reconciliation) will also provide **more relevant and understandable information** for users on the entity-specific performance measures that qualify as MPMs and enable users to make any adjustments they consider necessary in their analyses.
- 4.14 These views are shared by respondents to the UKEB surveys as shown below:

**UKEB User survey**

86% of respondents observed that auditing MPMs will enhance users' confidence in and the **credibility** of these measures.

77% of respondents were of the view that the requirements on MPMs will **help users understand how entities view their performance**.

**UKEB Preparer survey**

56% of respondents considered that the requirements on MPMs **will represent an improvement over current practices for communicating financial performance**. Some of the reasons provided were that:

- Including these measures in a single location in a note to the financial statements will bring discipline, transparency and confidence on those measures as they will be subject to external audit.
- The MPM requirements will improve **understandability** and **comparability** of these measures for users.

## Aggregation and disaggregation

### Enhanced comparability, understandability and relevance of the information presented or disclosed

- 4.15 IFRS 18 enhances the requirements in IAS 1 for grouping and disaggregation of financial information. It also introduces new and defined roles for the primary financial statements and the notes to guide the presentation and disclosure of information. These will result in greater disaggregation in the primary financial statements and notes that would allow users to better **understand** and forecast performance metrics.
- 4.16 IFRS 18 also enhances the guidance around the presentation and disclosure of an analysis of operating expenses, including new requirements for disclosure of operating expenses by nature<sup>48</sup>. This will result in more **comparable**, understandable and **relevant** information for users.
- 4.17 The guidance on labelling of items should also lead to more informative and **relevant** description of items, enabling users to better **understand** the nature of the items included in the financial statements.
- 4.18 These views are shared by respondents to the UKEB surveys as shown below:

<sup>48</sup> See paragraph 2.35(d).

**UKEB User survey**

77% of respondents agreed that the guidance on the use of the label 'other' and requiring the disaggregation of large 'other' items will **enhance comparability**.

**UKEB Preparer survey**

61% of respondents supported the requirements on aggregation and disaggregation because they:

- Improve the **comparability** and consistency of the information presented and/or disclosed across different entities and industries.
- Enhance the **understandability, relevance and reliability** of the primary financial statements.

**Limited changes to IAS 7****Enhanced comparability, understandability and relevance of cash flows information**

- 4.19 Requiring the operating profit subtotal as a consistent starting point for the reconciliation of cash flows under the indirect method will simplify the reconciliation of cash flows from operating activities making this information more **relevant** and **understandable**. It will also make the statement of cash flows more consistent and help investors analyse and **compare** entities' cash flows.
- 4.20 Removing alternatives for the classification of cash flows related to interest and dividends paid or received, will make the statement of cash flows more consistent and **comparable**. This will also provide more **relevant** information for users.

**Potential improvement from interaction across the main changes**

- 4.21 The enhanced principles of aggregation and disaggregation, including the concept of 'useful structured summary', and the requirements of categories and subtotals should result in a **more understandable** structure of the statement of profit or loss. Most respondents in a global survey<sup>49</sup> conducted by CFA Institute expected that improvements in the structure of the statement of profit or loss and enhanced disaggregation of statement of profit or loss can also reduce the need for APMs.

**Summary of whether IFRS 18 likely to improve the quality of financial reporting**

- 4.22 Stakeholders, and users in particular, suggested that implementing IFRS 18 will lead to:
- a) improvements to the presentation and disclosure of information in the primary financial statements and the notes; and

<sup>49</sup> Section 3.2.1 of *Bridging the gap: Ensuring effective on-GAAP and performance reporting* (2016) by CFA Institute.

- b) financial information that is more useful and relevant to users.

Therefore, the UKEB [tentatively] concludes that IFRS 18 is likely to improve the quality of financial reporting in the UK.

## Economic impact assessment

4.23 The economic impact assessment considers the following:

- a) Government guidance.
- b) An analysis of costs and benefits that are likely to result from the use of IFRS 18.
- c) Whether the use of IFRS 18 is likely to have an adverse effect on the economy of the UK, including on economic growth (wider economic effects).
- d) The consequences of not adopting IFRS 18 (counterfactual analysis).

## Government guidance

4.24 The UK government's [Better Regulation Framework](#) (BRF) provides a set of guidelines on how to conduct economic impact assessments for UK government departments<sup>50</sup>.

4.25 The UKEB currently is not required to apply the BRF. However, the UKEB considered and agreed that it should broadly follow the BRF guidance. Accordingly, the cost and benefits analysis (CBA) for the adoption of IFRS 18 was developed to be broadly consistent with the BRF<sup>51</sup>.

4.26 In the analysis that follows, the UKEB followed the principle of proportionality of assessment. This means "ensuring the appropriate level of resources is invested in gathering and analysing evidence on the impacts of a policy". In the case of the UKEB the adoption of a new accounting standard is considered "a policy"<sup>52</sup>.

<sup>50</sup> The BRF applies to "regulatory provisions", defined in paragraph 2.3 of the BRF. Paragraph 2.4 of the BRF clarifies that provisions in scope are made by ministers. See the BRF [here](#).

<sup>51</sup> The BRF is ground in the principles of the Green Book, which applies to public entities more broadly (e.g. regulators, arm's length bodies). The Green Book was also consulted to ensure consistency.

<sup>52</sup> Regulatory Policy Committee, [Proportionality Guidance](#).

## Analysis of costs and benefits likely to result from the use of IFRS 18

### Objective

- 4.27 The assessment of the long-term public good requires an analysis of costs and benefits associated with the use of IFRS 18.
- 4.28 The CBA looks at the economic impact in terms of direct compliance costs (one-off and ongoing). It also considers direct benefits for stakeholders affected: preparers, users and other stakeholder categories (i.e. auditors, regulators). As is common with financial reporting regulation, preparers are expected to incur most compliance costs, largely for the direct benefit of users of financial statements. Indirect effects are considered in the wider economic effects section.
- 4.29 The analysis of costs and benefits associated with the implementation of IFRS 18 focuses on incremental costs and benefits, (i.e. costs and benefits incurred as a direct result of meeting the requirements of the Standard).
- 4.30 Qualitative and quantitative evidence on costs comprises both expected monetary costs (e.g. external audit) and staff reallocation costs (e.g. because of familiarisation, changes to internal processes).

### Collection of evidence

- 4.31 Evidence was collected using different research tools.
  - a) **Surveys:** During Q3 2024, the UKEB conducted two surveys, one for preparers and one for users, to collect evidence to assess whether IFRS 18 meets the technical and the long term public good assessment criteria for endorsement<sup>53</sup>.
  - b) **Engagement with UKEB Advisory Groups** and with its **Financial Instruments Working Group (FIWG)**.
  - c) **Webinar poll:** In July 2024, the UKEB held a joint webinar with the IASB to discuss the key requirements of IFRS 18 and its implications. During the webinar, participants were asked to respond to a poll on the costs and benefits of adoption, the results of which are summarised in [Appendix C](#).
  - d) **Questionnaire to auditors:** During Q3 2024, the UKEB sent a short questionnaire to members of the Accounting Firms and Institutes Advisory Group (AFIAG) to gather views on the likely costs and benefits of adoption.
  - e) **Interviews:** During Q4 2024, the UKEB conducted a total of 15 interviews with preparers as part of the outreach for the assessment of long term public good (including with three preparers from listed small- and medium-

<sup>53</sup> The UKEB Preparer survey collected 46 responses and the UKEB User survey collected 22 responses.

cap entities) and one with a user. The interviews were aimed at gathering additional quantitative information on implementation costs, as well as detailed contextual information.

- f) **Other engagement:** The UKEB engaged bilaterally with UK regulators, professional accounting bodies, industry associations, users and other national and regional standard setters to understand their views on the costs and benefits associated with the adoption of IFRS 18.

## Users

### Benefits for users

- 4.32 Respondents to the UKEB User survey were asked to provide information about benefits, such as incremental cost reductions, as well as incremental one-off and ongoing costs, associated with the implementation of IFRS 18.
- 4.33 On direct benefits, users reported that the more consistent structure for the statement of profit or loss should result in more efficient use of time spent analysing financial statements and an increase in the quality of analysis/reports. Nearly half of the respondents also believed that the IFRS 18 will lead to enhanced company assessments. **Chart 1** provides a visual representation of the results:

**Chart 1: Direct benefits of IFRS 18 to users of financial statements**



Note: The chart reports the share of responses over the total number of responses (22).

- 4.34 The UKEB Preparer survey provided additional evidence on the potential benefits for users of IFRS 18. Specifically, the survey asked preparers to indicate whether they expected IFRS 18 to affect:
- a) **The comparability of the entity's reporting of financial performance:** 60% of respondents indicated that they anticipate a mild to strong positive effect.

- b) **The transparency of the entity's financial performance:** 51% of respondents indicated that they anticipate a mild to strong positive effect.
- c) **The reporting of an entity's financial performance in line with underlying economics:** 31% of respondents indicated that they anticipate a mild to strong positive effect, however 44% indicated that they do not anticipate any effect.

Preparers anticipate that users will reap ongoing benefits.

4.35 These results are consistent with IFRS 18 enhancing the quality of financial reporting (paragraphs 4.4–4.22).

### Costs for users

4.36 On implementation costs, users reported that they:

- a) Expected one-off costs to be nil in the majority of cases, and lower than 1% of their operating costs in the remaining cases. Feedback from comment boxes suggested that costs are in general anticipated to be negligible (i.e. not close to 1% of operating costs).
- b) Did not expect to incur any ongoing costs.
- c) Did not generally expect ongoing cost reductions.

## Preparers

### Benefits for preparers

- 4.37 The UKEB Preparer Survey and interviews asked preparers to provide information about benefits, such as incremental cost reductions, as well as incremental one-off and ongoing costs, associated with the implementation of IFRS 18.
- 4.38 The information from preparers suggests that they do not anticipate IFRS 18 to bring any direct benefits or cost savings to preparers. Some preparers expected indirect benefits to be delivered as a result of the enhanced interaction between users and capital markets (e.g. potential cost of capital reductions).

### Costs for preparers

- 4.39 The majority of stakeholders indicated that they expected incremental one-off costs to be small.
- 4.40 Comments from interviewees indicated that:
  - a) **IFRS 18 implementation is not anticipated to be costly.** This is because IFRS 18 changes presentation and disclosure but not the recognition and measurement of the components of financial statements. Interviewees



noted that implementation costs would comprise both monetary costs (e.g. external audit) and staff time reallocation costs (e.g. familiarisation).

- b) **Implementation costs are a function of complexity and not *just* size.** Costs associated with the implementation of IFRS 18 are not just a function of an entity's size but are correlated with the complexity of the business (e.g. investments in joint ventures and associates accounted for using the equity method or non-controlling interests)<sup>54</sup>. IFRS 18 however includes cost mitigations that are likely to affect the scale of one-off costs<sup>55</sup>.
- c) **Approach to compliance will vary.** When adopting IFRS 18, some preparers indicated that they would make only the minimum necessary changes to comply with IFRS 18, while others indicated that they would thoroughly re-think their profit or loss presentation as well as their disclosures. Most entities positioned themselves between these two approaches.

[Appendix C](#) reports more detailed information (see paragraph C17(a)–(c)).

4.41 Most preparers indicated that one-off costs are anticipated to be much higher than ongoing costs.

- a) **One-off costs:** The cost categories most likely to be affected upon implementation are accounts preparation, familiarisation, changes to data handling processes and controls, audit costs. One interviewee indicated that management time dedicated when handling the transition may lead to some one-off costs (i.e. management's time reallocation). Preparers indicated that all cost categories –except for audit costs– would result in a reallocation of finance department staff time in most cases. The costs associated with the reallocation of staff time would represent an opportunity cost<sup>56</sup> as staff will not be able to spend this time on other productive activities. Opportunity costs would not have direct monetary consequences on entities.
- b) **Ongoing costs:** Most preparers anticipated incurring some incremental audit costs on an ongoing basis. Preparers expect to incur other costs on an ongoing basis, associated, for example, with accounts preparation and changes to data handling processes and controls. These are expected to be smaller than audit costs and largely attributable to staff time reallocations (i.e. an opportunity cost). On balance, preparers suggested that incremental ongoing costs, including audit fees, will be subsumed into business as usual and therefore would not lead to staff time reallocation or

<sup>54</sup> As noted throughout the [Draft] ECA, implementation costs associated with IFRS 18 are anticipated to be limited. Although entities with greater complexity are expected to face relatively higher implementation costs, because of anticipated changes to templates, communication costs and one-off audit costs. However, that does not imply that costs are anticipated to be high in absolute terms.

<sup>55</sup> For example, IFRS 18 provides relief from some classification requirements if those requirements would result in undue cost or effort (see paragraph 2.24). Preparers generally did not know whether they will be using these relief options at the time of the engagement.

<sup>56</sup> An opportunity cost is the value of the next best next alternative foregone when making a choice.

extra monetary costs after a few years. In some instances, preparers indicated that increases in audit fees are expected to be permanent. Results from the Preparer survey suggests that preparers anticipate incurring ongoing costs from implementing IFRS 18 for five years on average.

4.42 Preparers were asked to rank the different topics in IFRS 18 in terms of costliness. The following emerged:

- a) **Categories and subtotals:** Preparers listed this as one of the costliest sets of requirements upon implementation, but not on an ongoing basis. This is because these requirements entail a change in the presentation of the statement of profit and loss that will lead to a one-off change in templates. This is most likely to entail a reallocation of finance department staff time (e.g. to adjust templates for the presentation and classification of line items in the statement of profit or loss in line with the requirements in IFRS 18). In addition, preparers anticipate that auditors will dedicate extra time on a one-off basis to audit relevant changes to the presentation of the statement of profit or loss. However, not all preparers expect the structure of the statement of profit and loss to change significantly as a result of IFRS 18. For example, feedback from the UKEB Preparer survey showed that some entities may already be separating investing and financing items in the statement of profit or loss and therefore do not expect the implementation costs for these changes to be significant. When IFRS 18 requirements are not expected to significantly alter presentation (i.e. entities with “low complexity”, see paragraph 4.40(b)), implementation costs are anticipated to be minimal. Some preparers however indicated that classification requirements are perceived to be complex and may require potential system changes.
- b) **Management-defined performance measures:** Preparers’ views on this aspect were split as follows:
  - i. **Requirements on MPMs will cause higher implementation costs:** These preparers emphasised that, while MPMs are not individually difficult to prepare, the volume and complexity of the required disclosures and the fact that they are subject to audit would lead to an increase in one-off and ongoing costs.
  - ii. **Requirements on MPMs will not cause high implementation costs:** These preparers indicated that incremental costs would be minimal because either they report APMs by following similar practices to those required for MPMs, or they make limited use of APMs.
- c) **Aggregation and disaggregation:** Some preparers listed aggregation and disaggregation as a costly set of requirements on a one-off basis. This was mostly due to changes in the accounting system associated with disclosing items by nature in the notes and audit costs increases associated with considering the new required disaggregation.

- d) **Limited amendments to the statement of cash flows:** Preparers associated this set of requirements with low implementation costs because their current practices for reporting cash flows will not be significantly affected by the limited changes made in IFRS 18.

4.43 [Appendix C](#) includes more detailed evidence on costs and benefits for preparers.

4.44 The UKEB distributed a short questionnaire to AFIAG members to gather auditors' views on costs and benefits associated with the implementation of IFRS 18. Auditors' views on costs are summarised in the preparers' costs section as auditors pass extra costs on to preparers.

4.45 AFIAG members indicated that the magnitude of one-off costs will largely depend on the nature and complexity of the business rather than just its size, confirming preparers' views. Considering IFRS 18 requirements, one-off audit costs may be higher depending on:

- a) The presence of specified main business activities.
- b) The number of investments in associates and joint ventures accounted for using the equity method.
- c) The number and nature of MPMs.
- d) The presence of non-controlling interests.
- e) The prevalence of foreign exchange transactions.
- f) Changes derived from the application of the aggregation or disaggregation requirements.

4.46 AFIAG members indicated that ongoing costs are anticipated to be much smaller than one-off implementation costs.

### Quantitative assessment of implementation costs

4.47 The UKEB conducted a quantitative assessment of the cost impact to preparers associated with the implementation of IFRS 18 with the purpose of:

- a) triangulating the qualitative evidence reported above; and
- b) obtaining an important input in the analysis of capital market effects developed in paragraphs 4.81–4.96 below.

4.48 The results discussed suggest that the estimation of costs is complex and likely to vary across different types of entities, though costs are expected to be relatively small. Therefore, the quantitative analysis that follows should be interpreted as a high-level estimate. The estimation provides an indicative range for implementation costs across the entire population of approximately 1,400 publicly

listed entities that would be required to apply IFRS 18 and should **not** be interpreted as an accurate forecast of implementation costs.

4.49 The quantitative assessment was based on:

- a) A regression model of implementation costs on consolidated revenues (source: Reuters-Eikon) using a sample of 18 responses from the UKEB Preparer survey and interviews.
- b) A subsequent market-wide extrapolation based on the regression results.

### Limitations of the analysis

4.50 The following limitations apply:

- a) **Sample size:** the assessment is based on a small sample not representative of the population.
- b) **Model specification:** the regression model is very simple, including only one variable (revenues).
- c) **No causality:** the interpretation of the results is a correlation and should not be interpreted as causal.

4.51 The assessment is based on ex-ante cost estimates provided by finance department staff. The UKEB made all possible efforts to limit bias and imprecision when collecting data. Specifically, when drafting the survey and in the interview questionnaires the UKEB ensured that preparers were invited to carefully consider the composition and size of implementation costs. Questionnaires were thoroughly reviewed internally and by stakeholders (e.g. by the UKEB Academic Advisory Group). Follow-up interviews were conducted to challenge and validate the figures when the cost estimates necessitated further explanations, which led to revised figures in a limited number of cases. Survey responses were triangulated with interview responses. While preparers' assessments were, preliminary and ex-ante, the above precautions ensured that preparers' estimates were the result of a thorough process.

### Estimated implementation costs

4.52 As noted, the estimation was based on a regression model. This delivered a **point estimate**, i.e. the most statistically likely outcome, and a range within which the point estimate lies with a given probability, known as **confidence interval**<sup>57</sup>. The cost estimates reported in the main text below are based on the point estimate, as it is the most statistically likely outcome as per estimation model. However, based on the regression model, implementation costs lie within a range. [Appendix D](#) provides further detail on the lower and upper bounds on the estimation.

<sup>57</sup> As the regression estimate is normally distributed, the lower and upper bound estimates are not as likely to happen.

- 4.53 The assessment indicated that estimated implementation costs based on the regression point estimate could approximately be in the order of:<sup>58,59</sup>
- a) £65 million of extra **one-off** monetary costs, comprised largely of audit fees.
  - b) £200 million of extra **one-off** costs. These are attributable largely to familiarisation with IFRS 18, changes to templates and data handling processes. Most of these costs are expected to be opportunity costs associated with staff time reallocation.
  - c) £45 million of extra **ongoing** monetary costs, comprised largely of audit fees (present value over a five-year period).
  - d) £75 million of extra **ongoing** costs. These are attributable largely to accounts preparation, data handling processes and accounting systems maintenance (present value over a five-year period). Most of these costs are expected to be opportunity costs associated with staff time reallocation.
- 4.54 Total implementation costs are the sum of the above figures for the approximately 1,400 publicly listed entities that would be required to apply IFRS 18. These are estimated to be in the order of £400 million. Of these, only approximately £100 million are expected to be actual extra monetary costs, the rest being opportunity costs. Total implementation costs amount to approximately 0.02% of listed entities operating expenses as of the 2023 year-end. This result is consistent with feedback from preparers.
- 4.55 The following should be considered for added context:
- a) Preparers who responded to the Preparer survey/interviews responded on behalf of groups required to prepare **consolidated accounts**. Therefore, estimates of implementation costs are at a group-level and consider any costs to be incurred by subsidiaries<sup>60</sup>.
  - b) On average, preparers expect monetary and non-monetary ongoing costs to be subsumed into business as usual within a five-year period (as estimated using survey responses), which is the period used to calculate present values.

<sup>58</sup> These are based on the most likely estimates within a range of outcomes as per estimation model. The reader should interpret the allocation between monetary and non-monetary costs as indicative and approximate. The reader should refer to [Appendix D](#) for further details.

<sup>59</sup> At the March 2025 Board meeting, the UKEB presented a larger estimate for ongoing costs. This was due to the application of a 10-year appraisal period. The appraisal period was revised as a further investigation of data from the Preparer survey and 1-2-1 interviews suggested that five years is a more realistic appraisal period.

<sup>60</sup> The number of subsidiaries of UK-listed groups is estimated to be approximately 78,000 (UKEB calculation based on data obtained from Reuters-Eikon). This figure includes both UK domestic (21,000 entities) and international overseas (57,000 entities) subsidiaries. The number of subsidiaries that apply UK-adopted IAS is not known.

- c) It is possible that preparers exerted caution when responding, and estimates may lie at the higher end of the distribution.
- d) A similar analysis was not conducted for unlisted entities that use UK-adopted international accounting standards on proportionality grounds.

4.56 The technical details of the analysis, including summary statistics, are described in [Appendix D](#).

### **Proportionate engagement with listed small- and medium-cap entities**

4.57 The UKEB conducted targeted proportionate engagement with entities listed on the Alternative Investment Market (AIM) to conduct an initial assessment of whether IFRS 18 is expected to impose disproportionately large costs on listed small- and medium-cap entities. The proportionate engagement was as follows:

- a) Five Preparer survey responses from AIM-listed entities.
- b) Three interviews with AIM-listed entities<sup>61</sup>.
- c) A presentation of preliminary results from the economic assessment of IFRS 18 to the Accounting, Auditing & Financial Reporting Expert Group (AAFREG) of the Quoted Companies Alliance (an industry body representing small- and medium-sized quoted entities in the UK).

4.58 Feedback from the engagement suggested that:

- a) Listed small- and medium-cap entities have limited resources dedicated to technical accounting and therefore are more likely to start compliance closer to the implementation date of IFRS 18.
- b) Familiarisation and audit costs are the cost categories most likely to be affected by the implementation of IFRS 18 for these entities.
- c) Smaller-sized businesses tend, on average, to be characterised by lower levels of complexity because, for example, they make fewer acquisitions or are less likely to conduct international operations. Implementation costs are therefore likely to be “scalable” and proportional to the size of the entity.

4.59 This initial feedback suggested that listed small- and medium-cap entities are unlikely to be disproportionately affected by the adoption of IFRS 18. The UKEB therefore did not conduct extra targeted engagement with listed small- and medium-cap entities.

<sup>61</sup> AIM-listed companies vary in size, featuring some large entities. The average (total) market capitalisation of the eight companies the UKEB engaged with for this [Draft] ECA was approximately £240 million (£1.6 billion) as of June 2025. The total market capitalisation of these companies was 0.06% of the market capitalisation on the LSEG (Source: Reuters-Eikon).



## Costs and benefits for regulators

- 4.60 The UKEB contacted several UK financial and economic regulators to ask whether IFRS 18 is anticipated to create extra costs or benefits to their organisation, and if so, why. For example, the UKEB asked whether IFRS 18 may lead to a revision of regulatory templates, the development of additional procedures to regulate the new requirements, or additional costs to enforce the new requirements.
- 4.61 Regulators indicated that IFRS 18 is not anticipated to generate any significant extra costs for them.<sup>62</sup>

## Summary of costs and benefits analysis<sup>63</sup>

- 4.62 Users anticipate significant benefits from the application of IFRS 18. For example, users reported that the implementation of IFRS 18 should result in more efficient use of time spent analysing financial statements and an increase in the quality of analysis/reports. Preparers have also acknowledged that users are likely to reap benefits from the implementation of IFRS 18, for example enhanced comparability on the statement of profit or loss between entities. Users also indicated that they anticipate incurring minimal implementation costs.
- 4.63 Preparers indicated that they expect to incur both one-off and ongoing incremental costs as a result of applying IFRS 18, though they expect them to be small. Implementation costs will comprise both monetary costs (e.g. extra audit costs) and staff time reallocation (e.g. familiarisation, changes to internal processes). Preparers expect one-off costs associated with extra audit fees, familiarisation and changes to templates to comprise most of the costs. Preparers expect ongoing implementation costs to be much lower than the one-off implementation costs. They also expect these costs to be subsumed into business as usual in a few years' time.
- 4.64 The UKEB conducted quantitative analysis to obtain a high-level estimate of expected implementation costs for all UK-listed entities. Estimated implementation costs (one-off and ongoing) are approximately £400 million, of which approximately £100 million are expected to be actual extra monetary costs, while the rest represent opportunity costs associated with staff time reallocation. Total implementation costs amount to approximately 0.02% of listed entities operating expenses as of 2023 year-end.
- 4.65 It is acknowledged that preparers will incur most of the direct compliance costs, with users reaping most of the direct benefits associated with the implementation of IFRS 18.

<sup>62</sup> Feedback from a regulator suggested that, to the extent that regulators utilise financial statements, the benefits for them would be similar to the benefits that accrue to investors, e.g. ability to better compare companies or contextualise their financial performance.

<sup>63</sup> The results reported in this [Draft] ECA are broadly in line with those reported by third-party research. See [Appendix C](#) for further detail.



- 4.66 However, the fact that users expect to reap benefits from the increased transparency arising from the implementation of IFRS 18 suggests that capital allocation decisions may improve as a result of enhanced analysis/decision-making. Enhanced capital allocation may translate into beneficial capital market effects, such as an appreciation of traded securities or a reduction in the cost of capital for entities. Therefore, based on this initial assessment, it is plausible that preparers are likely to recover their implementation costs in the longer term. The next section will discuss the likelihood of any such effects.

## Analysis of wider economic effects

### Structure of the analysis

- 4.67 The assessment of the long-term public good involves a consideration of whether the use of IFRS 18 is likely to have an adverse effect on the economy of the UK, including on economic growth. This [draft] ECA will refer to these as “wider economic effects” in the remainder of this section.
- 4.68 The analysis of wider economic effects looks at:
- a) **Transmission mechanisms:** For example, whether the adoption of a Standard would lead to a change in how information circulates within relevant organisations, different internal processes or a different assessment of competition. Transmission mechanisms include effects on management’s stewardship.
  - b) **First-order indirect effects (capital market effects):** These are indirect effects due to the enhanced interaction between users and capital markets attributable to the change in accounting, such as effects on liquidity or volatility in public equity markets, and cost of capital.
  - c) **Second-order indirect effects:** Microeconomic effects on preparers, users and other stakeholders that go beyond capital market effects. Examples include any effects on management compensation schemes, covenants, dividend payments and tax obligations that may arise from changes in accounting line items<sup>64</sup>. In addition, microeconomic effects such as product or pricing decisions, competition, economic output or productivity and capital investment are considered.
  - d) **Third order indirect effects:** Micro and macroeconomic effects that go beyond preparers/users, such as:
    - i. **Externalities:** The impact of a transaction on a third party who is not directly involved in the transaction itself, for instance, financial reporting impacting not just the capital markets ecosystem but other parties (e.g. economic and financial regulators, tax authorities, other stakeholders such as competitors, suppliers or

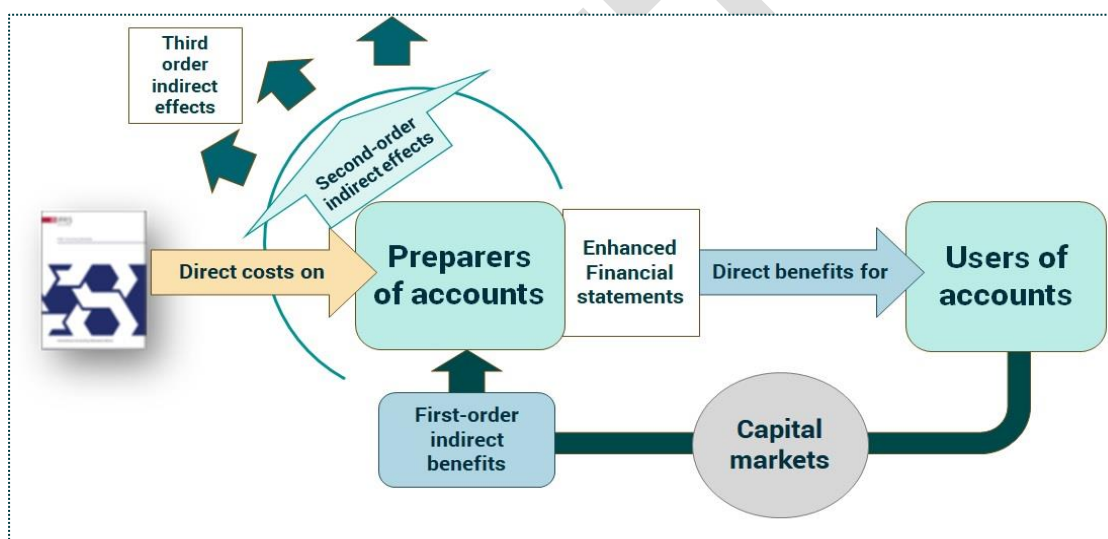
<sup>64</sup> These effects are considered indirect as they are post-implementation.

employees).

- ii. **Network effects:** Economic impacts that increase in magnitude as the number of network users increases, e.g. credit cards, social media.
- iii. **Macroeconomic effects:** Economic impacts that spread to the national economy.

4.69 **Chart 2** provides a visual representation of direct and wider economic effects.

**Chart 2: Direct and wider economic effects associated with the adoption of a new accounting standard**



Source: UKEB

## Collection of evidence

4.70 To assess wider economic impacts, the UKEB collected evidence using a range of research tools, as follows:

- a) **Surveys:** Both UKEB surveys contained questions on transmission mechanisms and indirect economic effects.
- b) **Cost of capital analysis:** The UKEB developed a methodology to assess whether, at a market level, capital market effects potentially associated with the application of IFRS 18 may deliver indirect monetary benefits that would allow preparers to indirectly recover implementation costs. The methodology also allows the assessment of the plausibility of the results.

- c) **Qualitative analysis:** The UKEB assessed second- and third-order economic effects qualitatively, using desk-based research and economic reasoning<sup>65</sup>.

## Transmission mechanisms

### Preparers

- 4.71 The UKEB Preparer survey included questions on the wider economic impact of IFRS 18, focusing on transmission mechanisms.
- 4.72 Preparers were asked to indicate the extent to which they expected the implementation of IFRS 18 to affect management's stewardship and other transmission mechanisms, such as whether IFRS 18 would affect how information circulates within an entity or internal processes.
- 4.73 **Management's stewardship:** Respondents were asked to indicate whether they expected IFRS 18 to affect:
- a) **Presentation of management's use of economic resources to users:** 61% of respondents indicated that they anticipate no effect.
  - b) **Transparency over management's performance in financial reporting:** 53% of respondents indicated that they expected no effects.
  - c) **Management's discretion in presenting the entity's financial performance:** The opinions on this outcome were divided, with 49% of respondents indicating that they anticipate IFRS 18 to lead to less management discretion in presenting entities' financial performance. However, 42% of respondents indicate that they anticipate no effect.
- 4.74 On balance, preparers' views were that IFRS 18 is unlikely to affect management's stewardship.
- 4.75 **Other transmission mechanisms:** Respondents were asked to indicate whether they expected IFRS 18 to affect:
- a) How information circulates within the organisation.
  - b) Streamlining of internal systems and processes.
  - c) Disclosure of proprietary information, where more disclosures were interpreted to be a negative effect.

<sup>65</sup> The Preparer survey included questions on direct effects other than costs as well as some second-order effects. Because the results indicated that preparers consider there will be minimal or no wider economic effects, further quantitative analysis or stakeholder engagement was not considered proportionate.

- d) Competitors' assessment of the entity's performance, where a better assessment was interpreted to have a negative effect.
  - e) Internal assessment of competitors' financial performance, where a better assessment was interpreted to have a positive effect.
  - f) Risk of litigation, where lower risk was interpreted to have a positive effect.
- 4.76 Respondents either clearly indicated that no effect was expected or had split opinions with no clear pattern emerging. On balance, preparers' views were that IFRS 18 is unlikely to affect any of the above outcomes.

## Users

- 4.77 The UKEB User survey asked respondents to indicate whether the Standard would affect a number of transmission mechanisms.
- 4.78 On the items listed below, users indicated that IFRS 18 will either slightly improve or greatly improve their ability to analyse financial statements:<sup>66</sup>
- a) Compare entities' performance over multiple periods (74%).
  - b) Assess an individual entity's performance (74%).
  - c) Compare entities' performance with other entities (74%).
  - d) Conduct research (68%).
  - e) Understand how entities measure their own performance (58%).
  - f) Allocate time spent analysing financial statements efficiently (58%).
  - g) Allocate capital efficiently between entities (53%).
- 4.79 Only 32% of respondents indicated that IFRS 18 would help users better assess a company's solvency and only 37% of respondents indicated that IFRS 18 would enhance users' ability to conduct credit ratings. These results are not surprising, considering that IFRS 18 mainly deals with the presentation of financial performance (and therefore is not likely to alter balance sheet line items or balance sheet ratios).
- 4.80 There was a suggestion that IFRS 18 could be helpful to lenders, because:
- a) For some lenders (e.g. leveraged finance specialists) adjusted EBITDA is an important metric. Paragraph 118 of IFRS 18 permits the disclosure of a subtotal (i.e. *operating profit or loss before depreciation, amortisation and*

<sup>66</sup> The options assessed are considered transmission mechanisms as they refer to specific tasks/actions that users could conduct differently as a result of the standard, thus enhancing their interaction with capital markets. This [Draft] ECA notes that the difference between direct benefits and transmission mechanisms is subtle and subject to interpretation.

*impairments within the scope of IAS 36 Impairment of Assets, or 'OPDAI')*<sup>67</sup> that provides similar information to many of the EBITDA measures currently provided. If a company provides an EBITDA subtotal in its public communications that is not calculated in the same way as OPDAI, that subtotal would be an MPM, so the entity will need to provide disclosures about how it is calculated.

- b) Better principles for disaggregation would give some items greater visibility in the primary financial statements and provide information on the key drivers of cost (i.e. whether cost is part of their operating business).

## First-order indirect effects - capital market effects

- 4.81 This section applies a methodology developed by the UKEB to assess whether, at a market level, capital market effects potentially associated with the application of IFRS 18 may deliver indirect monetary benefits that would allow preparers to indirectly recover implementation costs. The methodology is based on evidence, grounded in research, and makes use of updated market data.
- 4.82 The analysis that follows shows that small and plausible market-wide reductions in the cost of capital would be enough for UK-listed entities applying IFRS to indirectly recover their implementation costs in the medium- to long-term.

## Background information

- 4.83 Users suggested that they may improve decision-making and enhance their capital allocation decisions on securities markets as a result of IFRS 18.
- 4.84 In line with economic theory and evidence, improved presentation of accounts resulting from IFRS 18 requirements should lead to enhanced trading activity, more liquidity, and a reduction in bid/ask spreads on securities markets<sup>68</sup>. Investors may demand lower returns for holding securities. In the longer term:
  - a) Market-wide cost of capital on public capital markets might go down<sup>69</sup>.
  - b) The prices of publicly traded securities might, on average, increase<sup>70</sup>.
- 4.85 Preparers indicated that they expect to incur direct costs associated with the implementation of IFRS 18. However, to the extent that capital market effects materialise (e.g. a market-wide decrease in cost of capital and/or a consequent

<sup>67</sup> An entity can label the subtotal OPDAI as 'EBITDA' if an entity has no income and expenses in the investing category, such that all its earnings are included in operating profit (see paragraph BC365 in the Basis for Conclusions of IFRS 18).

<sup>68</sup> The chain of events that leads to a reduction in the cost of capital in equity markets is well-understood from a theoretical perspective. Enhanced financial reporting provides investors with additional information, attracting more capital from less informed investors and lowering the risk of holding a given stock. This leads to enhanced trading activity and a reduction in bid/ask spreads, i.e. an increase in liquidity. See Hanlon and Truong (2025).

<sup>69</sup> Individual companies may experience cost of capital reductions or increases.

<sup>70</sup> Consistent with the dividend discount model, the price of traded securities would increase as a result of cost of capital reduction.

increase in market capitalisation), preparers would reap indirect benefits in the longer term. These may allow preparers to partly cover, break even on, or even outweigh implementation costs, albeit indirectly.

4.86 The analysis that follows permits us to:

- a) quantify the magnitude of capital market effects that would allow preparers to recover implementation costs in the medium- to long-term; and
- b) assess whether these magnitudes are plausible.

4.87 The figures obtained are **not** predictions of securities prices' trends or cost of capital reductions associated with IFRS 18 and should not be interpreted as such.

### Effects considered

4.88 The methodology considers the following concurrent market-wide effects potentially associated with the introduction of an accounting standard:

- a) **An increase in market capitalisation**, leading to an increase of shareholders' wealth at a market level<sup>71</sup>.
- b) **A decrease in the cost of equity**, leading to more projects funded through public equity capital at a market level.
- c) **An increase in the outstanding value of listed bonds**, leading to an increase of bondholders' wealth at a market level.
- d) **A decrease in the cost of debt**, leading to more projects funded through public debt capital at a market level.

4.89 **Table 6** shows the interaction between these market-wide effects:

<sup>71</sup> While increases in stock valuations do not accrue any direct monetary value to companies, management and shareholders look closely at the company's stock price because:

- Increases in market valuations represent an increase in shareholders' wealth and are a sign that managers (the agents) are working in shareholders' (the principals) best interests.
- Management's remuneration is often based on stock price performance, either through bonuses or because they are remunerated with stocks/stock options.
- Increases in market valuation demonstrate investor confidence in the company's business and management.

In addition, an increase in market capitalisation may lead to small positive economic effects at a macroeconomic level.

**Table 6: Four market-wide effects of cost of capital reductions**

	<b>Equity</b>	<b>Debt</b>
<b>Securities already issued (wealth effects)</b>	Increase in market capitalisation	Increase in the outstanding value of corporate bonds
<b>Securities to be issued in the future (investment effects)</b>	Decrease in the cost of equity leading to more projects funded through public equity	Decrease in the cost of debt leading to more projects funded through publicly traded corporate bonds

Source: UKEB

- 4.90 These effects are likely to be correlated, for example because a reduction in the cost of capital would lead to projects being funded through equity/debt in the future but also to changes in the market value of securities<sup>72</sup>. Nonetheless, they should be considered as separate effects as:
- a) the effect on cost of capital on future capital flows is of interest to entities that plan to raise capital in the future; but
  - b) increases in the value of traded securities affect the market in its entirety.

### Application of the methodology

- 4.91 Market-wide implementation costs for preparers are the starting point for the analysis. The UKEB estimated market-wide implementation costs (one-off and ongoing costs) for preparers to be approximately £400 million (see paragraph 4.64).
- 4.92 The UKEB considered a hypothetical scenario where:
- a) 75% of the costs are recovered through equity markets (equally split between an increase in market capitalisation and an increase in the value of projects funded through equity); and

<sup>72</sup> The UKEB considered that estimating the degree of correlation would be neither feasible nor proportionate.



- b) 25% of the costs are recovered through bond markets (equally split between an increase in the value of bonds outstanding and an increase in the value of projects funded through fixed income).<sup>73</sup>

4.93 **Table 7** below shows that the following capital effects need to materialise for preparers to recover implementation costs in the medium- to long-term:

**Table 7: Proportion of estimated market-wide implementation costs assigned to each potential market-wide effect**

Chosen scenario	Proportion of implementation costs assigned to each potential capital market effect	Potential capital effects associated with the adoption of IFRS 18 in basis points
Increase in market capitalisation	37.5%	0.5 Bps
Decrease in the cost of equity leading to more projects funded through public equity	37.5%	3.2 Bps
Increase in the outstanding value of corporate bonds	12.5%	0.6 Bps
Decrease in the cost of debt leading to more projects funded through publicly traded corporate bonds	12.5%	0.2 Bps

Note: allocations are arbitrary. [Appendix E](#) contains results associated with different allocations.

Source: UKEB calculations based on LSE and Reuters-Eikon data. A basis point is a hundredth of a percentage point. Increases in the market value of securities would affect the market in its entirety. Increases in the value of projects funded through equity/debt would affect only companies that plan on raising funds through capital markets in the future. It is acknowledged that these concurrent effects are likely to be correlated.

<sup>73</sup> The UKEB utilised a scenario-based approach as the methodology cannot be used to conduct predictions. The splits are arbitrary and indicative. The UKEB chose a 75% equity/25% debt scenario because feedback from stakeholders suggested that equity investors are the ones who would benefit the most from use of IFRS 18. Therefore, equity markets are expected to deliver most capital market effects that might materialise after the implementation of IFRS 18. However, feedback from stakeholders suggested that lenders could still reap value from the changes brought by IFRS 18. Consequently, it is plausible to anticipate that part of the indirect benefits for preparers could materialise through public bond markets. [Appendix E](#) contains results relating to other scenarios.

- 4.94 The analysis suggests that to allow preparers to recover implementation costs of approximately £400 million (see paragraph 4.64) the following effects should happen concurrently:
- a) **Increase in market capitalisation:** Market capitalisation for the UK listed market should increase by £146 million, or 0.5 Bps (basis points) using its value as of October 2024 (£2.69 trillion)<sup>74</sup>.
  - b) **Decrease in the cost of equity leading to more projects funded through public equity:** Cost of equity should decrease by 3.2 Bps for the present value (PV) of projects funded through equity to increase by £146 million (the present value of equity issuances over a ten-year forecast is equal to £143 billion; baseline cost of equity: 11.23%).
  - c) **Increase in the outstanding value of corporate bonds:** The outstanding value of corporate bonds issued by UK companies on public bond markets should increase by £49 million, or by 0.6 Bps using its value as of October 2024 (£759 billion).
  - d) **Decrease in the cost of debt leading to more projects funded through publicly traded corporate bonds:** Cost of debt should decrease by 0.2 Bps for the PV of projects funded through debt to increase by £49 million (present value of public corporate bond issuances over a ten-year forecast is equal to £491.75 billion; baseline cost of debt: 5.03%).
- 4.95 The UKEB considered that the figures obtained are plausible<sup>75</sup>. A plausibility assessment is reported in [Appendix E](#). It is caveated that the results cannot be used to conclude or predict what capital market effects will materialise, if any, as a result of IFRS 18.
- 4.96 The analysis shows that small and plausible reductions in market-wide cost of capital would be enough for UK-listed entities applying IFRS to indirectly recover their implementation costs in the medium- to long-term.

### Potential impact on new public listings

- 4.97 It is possible that:
- a) presenting additional subtotals such as OPDAI; and

<sup>74</sup> An application of the Gordon Growth Model, a popular model used to determine the value of a stock assuming that dividends that grow at a constant rate, suggests that cost of equity should decrease by 0.02 Bps to achieve this increase (source: UKEB calculations based on Reuters-Eikon data).

<sup>75</sup> Specifically, when considering reductions in the cost of equity, it should be noted that the adoption of IFRS in the European Union in 2005 was associated with a likely cost of equity reduction of approximately 100 Bps in the UK. Moreover, recent research commissioned by the AASB shows that adoption of IFRS 15 and IFRS 16 in Australia was associated with a 100–190 Bps reduction in cost of capital. It must be caveated that results from the aforementioned research were drawn from research that does not implement causal inference, and therefore it is possible that the reported correlations are more sizable than actual effects.

- b) reconciling MPMs with the most directly comparable subtotal,

may help users of financial statements involved in public equity listings (e.g. underwriters, nominated advisors) better contextualise entities' financial performance. To the extent that reporting requirements in IFRS 18 convey better information that can facilitate public equity listings, this may represent a small incentive for entities to list on UK public equity markets.

## Second-order indirect effects

### Effects on management compensation schemes, covenants, dividend payments and tax obligations

4.98 The UKEB Preparer survey asked respondents to indicate whether IFRS 18 is anticipated to affect the following items:

- a) Management compensation schemes.
- b) Covenants.
- c) Dividend payments.
- d) Tax obligations that may arise from changes in accounting line items.

4.99 Most preparers expected no effect on any of these items. A preparer commented that "the new standard won't have impact on measurement. Presentational differences from a statutory perspective will not impact any of the above measures".

### Other second-order indirect effects

4.100 The following second-order microeconomic effects on preparers are discussed:

- a) **Effects on product or pricing decisions:** The requirements of IFRS 18 are not expected to affect the underlying economics that determines the prices charged or the nature of products supplied by entities. Therefore, no effects on product and pricing decisions are expected.
- b) **Effects on competition:** IFRS 18 is not anticipated to affect the determinants of competition between entities (e.g. product or pricing decisions or barriers to entry or exit). IFRS 18 is anticipated to provide more comparable information about preparers, thus potentially enhancing preparers' ability to benchmark or assess their competitors. This suggests that IFRS 18 may have a minor role in fostering a competitive economic environment between entities.
- c) **An increase/reduction in preparers' economic output or productivity:** The changes in presentation and disclosure requirements in IFRS 18 are not expected to affect the preparers' output, or their productivity. However, a

reduction in the cost of capital that may materialise as a result of implementing IFRS 18 may lead to an increase in capital investment.

- d) **An increase/reduction in capital investments:** IFRS 18 is not anticipated to directly alter preparers' output outlook or their strategic vision for the future and therefore is not likely to affect the entity's long-term capital needs. However, it is noted that a potential reduction in the cost of capital associated with IFRS 18 may lead preparers to fund more projects through public equity or debt, resulting in higher investment and/or a different capital structure.

## Third-order indirect effects

### Network effects

- 4.101 IFRS 18 is not expected to be associated with network effects. Industries where network externalities are present (e.g. tech) are not likely to be more or less affected than other industries by IFRS 18. The requirements are not anticipated to affect the number of people accessing the platforms or services provided by such entities.

### Externalities

- 4.102 Economists view the provision of publicly available financial reporting as a positive externality, affecting parties that are beyond the capital markets ecosystem (such as regulators, tax agencies, other stakeholders)<sup>76</sup>. Therefore, enhancements to financial reporting brought by IFRS 18 are expected to improve the quality of the "public good" provided by preparers. This is a small, positive economic effect. It should be noted that the requirements of IFRS 18 are not anticipated to generate negative externalities.

### Macroeconomic effects, including economic growth

- 4.103 No significant macroeconomic effects are anticipated as a direct result of IFRS 18 requirements. However, as noted in the First-order indirect effects - capital market effects section, IFRS 18 could:
- a) Positively affect the prices of traded securities. This would translate into higher shareholders' and bondholders' wealth.
  - b) Reduce cost of capital. If actualised, this would translate into enhanced investment opportunities for entities applying IFRS 18.
- 4.104 To the extent that capital market effects materialise, they could have a small positive effect on the consumption and investment components of GDP. The

<sup>76</sup> Meeks and Meeks (2002): "it is held that accounting information possesses some of the characteristics of a 'public good': once the information has been released to one customer, it becomes available to all (i.e. non excludability); and one person's consumption of the good does not diminish the amount left for others."

UKEB assessment is that IFRS 18 is not anticipated to have negative effects on economic growth.

## Summary of the analysis of wider economic effects

4.105 The analysis of wider economic effects suggests that:

- a) IFRS 18 may plausibly lead to market-wide capital market effects that would benefit preparers in the medium- to long-run. A quantitative analysis of such effects conducted using an in-house methodology suggests that preparers may indirectly recover their implementation costs. The UKEB cannot predict, however, whether any such effects will materialise and, if so, of what magnitude.
- b) Capital market effects, to the extent that they materialise, could have a small positive effect on the consumption and investment components of GDP.
- c) IFRS 18 is not expected to lead to wider economic effects that are detrimental to the UK economy, including on economic growth.

## Consideration of the consequences of not adopting IFRS 18 (counterfactual analysis)

4.106 This section considers the consequences of not adopting IFRS 18 for use in the UK (the 'non-adoption scenario'). The analysis assumes that IFRS 18 is widely adopted in other jurisdictions.

4.107 In a non-adoption scenario, UK entities applying UK-adopted international accounting standards would not incur incremental costs associated with the adoption of the standard (see paragraph 4.64 for a market-wide estimate of implementation costs).

4.108 However, in a non-adoption scenario, benefits for users associated with the adoption of IFRS 18 would not materialise. UK and overseas investors may redirect funds to jurisdictions that apply IFRS 18. In the long-term, non-adoption of IFRS 18 would be likely to have an adverse effect on UK capital markets, potentially leading to an increase in the cost of capital or reductions in the price of their traded securities for UK entities. The size and importance of UK capital markets are likely to play a key role in retaining investor interest and capital, which is a mitigating factor. However, in line with the analysis shown in paragraphs 4.81–4.96, even small adverse capital market effects (such as cost of capital increases) may lead to indirect adverse effects to companies in the medium- to

long-term. These would likely outweigh implementation costs associated with the adoption of the standard itself<sup>77</sup>.

- 4.109 In addition, non-adoption may lead to some other adverse wider economic effects, for example:
- a) Entities in other jurisdictions using IFRS 18 may be able to attract additional sources of capital and potentially benefit from a lower cost of capital, which could provide them with a competitive advantage over UK companies.
  - b) UK unlisted entities that apply UK-adopted international accounting standards may choose to list in jurisdictions that apply full IFRS.
- 4.110 Finally, feedback from preparers suggested that UK listed entities cross-listed abroad could incur extra costs if UK-adopted international accounting standards were to deviate from IFRS Accounting Standards as issued by the IASB. However, cross-listed entities may still have to apply IFRS 18 to their financial statements. For example, entities cross-listed in the US filing a Form 20-F can prepare their financial statements using IFRS Accounting Standards as issued by the IASB. That would limit potential negative capital market effects for these entities.
- 4.111 These considerations suggest that, on balance, not adopting IFRS 18 for use in the UK would have a potentially detrimental effect on the UK economy.

## **[Tentative] Overall assessment of long term public good**

- 4.112 There are three aspects to consider when assessing whether the use of IFRS 18 is likely to be conducive to the long term public good in the UK. These are:
- a) Whether IFRS 18 is likely to improve the quality of financial reporting.
  - b) The costs and benefits that are likely to result from the use of IFRS 18.
  - c) Whether the use of IFRS 18 is likely to have an adverse effect on the economy of the UK, including on economic growth.
- 4.113 The conclusions drawn on each of these aspects as summarised below.

### **Quality of financial reporting**

- 4.114 Implementation of IFRS 18 is likely to improve the quality of financial reporting by specifying enhanced presentation and disclosure requirements for the financial statements. This will lead to financial reporting that is more useful to investors

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<sup>77</sup> This assertion was made by simply interpreting the results shown in paragraphs 4.93–4.94 and **Table 7** with a “negative sign”, e.g. reduction in the present value of projects funded through equity associated with an increase in the cost of capital.

and other users of accounts, providing information that is more relevant, reliable and transparent. The new requirements in IFRS 18 are also likely to facilitate comparability and lead to clearer presentation and disclosure of information in the financial statements.

## Costs and benefits

- 4.115 Users anticipate significant benefits from the application of IFRS 18. For example, users reported that the enhanced presentation of financial performance brought by IFRS 18 should result in more efficient use of time spent analysing financial statements and an increase in the quality of analysis/reports. Users also indicated that they anticipate incurring minimal implementation costs.
- 4.116 Preparers indicated that they will incur both one-off and ongoing incremental costs as a result of applying IFRS 18, though they expect them to be small. Preparers expect one-off costs to be largely associated with extra audit fees, familiarisation and changes to templates. Preparers expect ongoing implementation costs to be much lower than one-off implementation costs, and to be subsumed into business as usual in a few years' time.

## Effect on the economy of the UK

- 4.117 While it is acknowledged that preparers will incur most of the direct compliance costs, the fact that users expect to reap benefits from the increased transparency arising from the implementation of IFRS 18 suggests that their capital allocation decisions may improve. Enhanced capital allocation may translate into beneficial capital market effects, such as an appreciation of traded securities or a reduction in the cost of capital for entities.
- 4.118 The analysis of wider economic effects suggests that IFRS 18 may plausibly lead to wider capital market effects that would benefit preparers in the medium- to long-run. A quantitative analysis of such effects conducted using an in-house methodology suggests that small and plausible market-wide reductions in the cost of capital would be enough for UK-listed entities applying IFRS to indirectly recover their implementation costs in the medium- to long-term. The UKEB cannot predict however whether any such effects will materialise and, if so, of what magnitude.
- 4.119 Any capital market effects associated with the application of IFRS 18, to the extent that they materialise, could have a small positive effect on the consumption and investment components of GDP.
- 4.120 IFRS 18 is not expected to lead to wider economic effects that are detrimental to the UK economy, including on economic growth.

## Counterfactual analysis

- 4.121 Overall, not implementing IFRS 18 for use in the UK would have a potentially negative outcome from the perspective of the UK long term public good.



## [Tentative] overall assessment

- 4.122 The tentative assessment is based on the joint consideration of the evidence reported above.
- 4.123 Overall, based on a holistic assessment of the evidence reported in this section, the UKEB considered that the **use of IFRS 18 is likely to be conducive to the long term public good in the UK.**

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## 5. Section 5: True and fair view assessment

### Introduction

- 5.1 This section considers whether IFRS 18 is not contrary to the true and fair view principle for individual and consolidated accounts.

### Legislative basis and our approach to the assessment

- 5.2 The UKEB is required to consider whether an international accounting standard being assessed for use in the UK meets certain legislative criteria set out in Regulation 7 (1) of SI 2019/685. The first criterion set out in that regulation requires that an international accounting standard can be adopted only if:

“[...] the standard is not contrary to either of the following principles—

- a) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
- b) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [...]"

- 5.3 In this section of the [Draft] ECA we consider whether IFRS 18 meets this endorsement criterion. For the sake of brevity, we refer to our assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair view principle'. However, these abbreviated expressions do not imply that our assessment has considered anything other than the full terms of the endorsement criterion set out above.
- 5.4 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is 'not contrary' to the true and fair view principle. In other words, it is an ex-ante assessment. We have therefore considered whether IFRS 18 contains any requirement that would prevent accounts prepared using the standard from giving a true and fair view.
- 5.5 Our approach is to determine whether IFRS 18 is not contrary to the true and fair view principle in respect of any of the items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. In carrying out our assessment of the impact of IFRS 18, we have also considered the disclosures required by the

Standard and its interaction with other UK-adopted international accounting standards.

- 5.6 For the purposes of our assessment, we consider the requirement in paragraph 15 of IAS 1 for financial statements to “present fairly the financial position, financial performance and cash flows of an entity”<sup>78</sup> to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.
- 5.7 Our assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking’s or group’s assets, liabilities, financial position and profit or loss.

## Interaction with other UK-adopted international accounting standards

- 5.8 We have considered whether any requirement of IFRS 18 would necessarily create distortions in its interaction with other UK-adopted international accounting standards. IFRS 18 introduces presentation and disclosure requirements that improve the relevance of financial information and do not change the recognition and measurement of the items in the financial statements. Therefore, it is unlikely that IFRS 18 will have a negative impact on other UK-adopted international accounting standards.
- 5.9 [Tentative] In addition, feedback from stakeholders and our own assessments of significant technical accounting issues in [Section 3](#) and in [Appendix B](#) have not indicated that any distortions arising from the interaction of IFRS 18 with other UK-adopted international accounting standards are a major concern for UK stakeholders.

## [Tentative] assessment

- 5.10 [Tentative] [Consultation feedback on the [Draft] ECA indicated that stakeholders generally agreed with the UKEB’s tentative conclusion that IFRS 18 was not contrary to the true and fair view principle].
- 5.11 [Section 3](#) of this [Draft] ECA concludes that IFRS 18 as a whole meets the technical accounting criteria. The technical accounting criteria refer to reliability which includes the notion of faithful representation of the economic substance of transactions and events (see [Section 1](#) of the [Draft] ECA). The technical accounting criteria assessment therefore further underpins the overall true and fair view assessment.

<sup>78</sup> IFRS 18 moved paragraph 15 of IAS 1 to IAS 8 (as paragraph 6A) and changed the title of IAS 8 from *Accounting Policies, Changes in Accounting Estimates and Errors to Basis of Preparation of Financial Statements*. Text moved to IAS 8 was left unchanged. This change is effective on 1 January 2027.

- 5.12 Our assessment has not identified any requirement of IFRS 18 that would prevent individual accounts prepared using the Standard from giving a true and fair view of the entity's assets, liabilities, financial position and profit or loss. We are satisfied, therefore, that the circumstances in which the application of IFRS 18 would result in accounts which did not give a true and fair view would be extremely rare.
- 5.13 SI 2019/685 requires an assessment of whether IFRS 18 is not contrary to the true and fair view principle for both individual and consolidated accounts. We have not identified any reason why the IFRS 18 true and fair view assessment should conclude differently for consolidated accounts.

## **[Tentative] overall conclusion**

- 5.14 [Overall, therefore, we conclude that IFRS 18 is not contrary to the true and fair view principle set out in Regulation 7 (1) (a) of SI 2019/685.]

## 6. Section 6: Is IFRS 18 likely to lead to a significant change in accounting practice?

### Introduction

- 6.1 This section considers whether IFRS 18 is likely to lead to a significant change in accounting practice.

### UK statutory requirements

- 6.2 Paragraphs 1–4 of Regulation 11 of SI 2019/685 require a review of the impact of the adoption of an international accounting standard<sup>79</sup> when this standard is likely to lead to a significant change in accounting practice. These paragraphs are reproduced below (emphasis added):

- “(1) The Secretary of State must publish a statement setting out the Secretary of State’s policy on what amounts to **a significant change in accounting practice**, and must keep this policy statement under review.
- (2) Paragraphs (3) and (4) apply in relation to the adoption of any standard by the Secretary of State under regulation 6 which the Secretary of State considers likely to lead to a significant change in accounting practice.
- (3) The Secretary of State must—
- carry out a review of the impact of the adoption of the standard; and**
  - publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used).**
- (4) The Secretary of State may carry out subsequent reviews from time to time, and in the event of doing so the Secretary of State must publish a report setting out the conclusions of any review conducted.”

<sup>79</sup> International accounting standards are adopted in accordance with Regulations, 6–8 of [SI 2019/685](#).

## Due Process Handbook requirements

### What constitutes a significant change in accounting practice?

- 6.3 Paragraph 1 of Regulation 11 of SI 2019/685 does not define the term ‘significant change in accounting practice’. However, it does require the UKEB to publish a statement setting out its policy on what amounts to a significant change in accounting practice. This can be found in paragraph 8.6 of the UKEB Due Process Handbook:

Whether or not a standard adopted under Regulation 6 is likely to lead to a ‘significant change in accounting practice’ will usually depend on the number of entities affected and the impact on those entities and may require judgement. It usually occurs when a new standard is issued by the IASB.

### Approach to the assessment

- 6.4 In this section we consider whether IFRS 18 is likely to lead to a ‘significant change in accounting practice’.
- 6.5 The UKEB has considered for this assessment:
- a) the number of entities that will be affected by IFRS 18; and
  - b) the potential impact on entities applying the requirements in IFRS 18.

### The number of entities that will be affected by IFRS 18

- 6.6 As discussed in [Section 2](#) (paragraphs 2.7–2.10) IFRS 18 will impact all entities across all sectors that prepare financial statements using UK-adopted international accounting standards. In other words, all entities listed on the London Stock Exchange will be required to apply it. Additionally, approximately 14,000 unlisted entities that use the option in UK law to use UK-adopted international accounting standards will also be required to adopt it. These entities will be required to apply IFRS 18 retrospectively from 1 January 2027, with earlier application permitted (subject to the UKEB adoption in the UK).

### Potential impact on entities applying the requirements in IFRS 18

- 6.7 IFRS 18 is a new general standard on presentation and disclosure in financial statements that will replace IAS 1.
- 6.8 IFRS 18 is not expected to bring a significant change in accounting practice as:
- a) Approximately 80% of the requirements in IAS 1 have been carried forward into IFRS 18 (or into IAS 8 or IFRS 7) with limited or no changes. Likewise,

a few of the new requirements in IFRS 18 are based on previous requirements in IAS 1 (see **Tables 3–5** in Section 2, paragraphs 2.18–2.20).

- b) It does not include requirements on how entities recognise and measure items in the financial statements. This means that entities will continue applying the same recognition and measurement principles in measuring financial performance (i.e. it will not affect net profit after interest and tax). This means that IFRS 18 is not fundamentally changing the way financial information is generated.
- c) It introduces new presentation and disclosure requirements mainly aimed at improving the relevance (e.g. aggregation requirements), reliability (e.g. requirements on MPMs) and comparability of the financial statements. It also enhances how information about financial performance is communicated in the financial statements.
- d) The current practices for reporting financial information in the UK may already be consistent with some of the new requirements in IFRS 18. For example, the results from the UKEB Preparer survey indicated that some respondents may already be:
  - i. Presenting the results from equity-accounted investments outside their main business operations.
  - ii. Presenting their adjusted performance measures in the financial statements and/or providing information about the tax for each reconciling item and about the effects of non-controlling interests for each reconciling item.
  - iii. Disclosing information on the five specified operating expenses by nature.
- e) The implementation of IFRS 18 may help entities reconsider their presentation and disclosure practices to consider whether improvements to those practices can be made (in terms of changes to its systems, charts of accounts or mappings). However, as discussed in Section 4 these changes are not expected to be costly or significant.

## [Tentative] overall conclusion

- 6.9 Having considered the above and acknowledging that IFRS 18 will impact all entities across all sectors that prepare financial statements using UK-adopted international accounting standards, the UKEB does not consider that IFRS 18 will bring a significant change in the way all entities communicate information in the primary financial statements and the notes. As a result, it [tentatively] concludes that IFRS 18 is not likely to lead to a significant change in accounting practice and



does not meet the criteria for a post-implementation review (PIR) under Regulation 11 in SI 2019/685.

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# Appendix A: Glossary

Term	Description
AAG	Academic Advisory Group – provided feedback on the survey design and on the impact of the requirements in IFRS 18. AAG is an advisory group that reports to the UKEB Board.
AFIAG	Accounting Firms & Institutes Advisory Group (AFIAG) – provided feedback on the impact of the requirements in IFRS 18. AFIAG is an advisory group that reports to the UKEB Board.
AIM	Alternative Investment Market. A sub-market of the London Stock Exchange that is not a 'regulated market'
APMs	Alternative Performance Measures
The Standard	IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>
DBT	Department for Business and Trade (formerly 'Department for Business, Energy and Industrial Strategy' (BEIS))
[Draft] ECA	Draft Endorsement Criteria Assessment
ECA	Endorsement Criteria Assessment
ED	Exposure Draft
EFRAG	European Financial Reporting Advisory Group
ESMA	European Securities and Markets Authority
EU	European Union

Term	Description
FCA	The Financial Conduct Authority
FCL	Final Comment Letter
FIWG	Financial Instruments Working Group (FIWG) provided feedback on the impact of the requirements in IFRS 18. FIWG is a working group that reports to the UKEB Secretariat.
FRC	Financial Reporting Council
IAG	Investor Advisory Group (IAG) provided feedback on the impact of the requirements in IFRS 18. IAG is an advisory group that reports to the UKEB Board.
IAS 1	IAS 1 <i>Presentation of Financial Statements</i>
IAS 2	IAS 2 <i>Inventories</i>
IAS 7	IAS 7 <i>Statement of Cash Flows</i>
IAS 8	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (IFRS 18 changed the title of IAS 8 to <i>Basis of Preparation of Financial Statements</i> )
IAS 27	IAS 27 <i>Separate Financial Statements</i>
IAS 28	IAS 28 <i>Investments in Associates and Joint Ventures</i>
IAS 34	IAS 34 <i>Interim Financial Reporting</i>
IAS 36	IAS 36 <i>Impairment of Assets</i>
IASB	International Accounting Standards Board
IASB Effects Analysis	The IFRS Accounting Standards Effects Analysis for IFRS 18, issued by the IASB in April 2024

Term	Description
IFRS	International Financial Reporting Standard(s)
IFRS 10	IFRS 10 <i>Consolidated Financial Statements</i>
IFRS 15	IFRS 15 <i>Revenue from Contracts with Customers</i>
IFRS 16	IFRS 16 <i>Leases</i>
IFRS 17	IFRS 17 <i>Insurance Contracts</i>
IFRS 18	IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>
LSE	London Stock Exchange
NCI(s)	Non-controlling interest(s)
PAG	Preparer Advisory Group (PAG) – provided feedback on the impact of the requirements in IFRS 18. PAG is an advisory group that reports to the UKEB Board.
Primary financial statements	<p>The following statements and their comparative information are referred to as 'primary financial statements'. They include:</p> <ul style="list-style-type: none"> <li>• a statement (or statements) of financial performance for the reporting period;</li> <li>• a statement of financial position as at the end of the reporting period;</li> <li>• a statement of changes in equity for the reporting period; and</li> <li>• a statement of cash flows for the reporting period;</li> </ul>
SI 2019/685	UK Statutory Instrument 2019/685: The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/685).

Term	Description
Listed small- and medium-cap entities	Listed small- and medium-cap entities refer to entities with relatively lower market capitalisations compared to large-cap (blue-chip) corporations. Market capitalisation (market cap) is the total value of an entity's outstanding shares, calculated by multiplying the share price by the number of shares available.
UKEB	UK Endorsement Board
UKEB Preparer survey	The on-line survey conducted with preparers of financial information by the UKEB from July–September 2024
UKEB User survey	The on-line survey conducted with users of financial information by the UKEB from July–September 2024
UKEB surveys	The on-line surveys conducted with preparers and users of financial information by the UKEB from July–September 2024

# Appendix B: Individual assessment of technical issues raised by UK stakeholders

## Introduction

- B1. The approach to the assessment of IFRS 18 against the technical accounting criteria (that is specified in SI 2019/685 Regulation 7(1)(c)) is set out in [Section 3](#) of this [Draft] ECA. This Appendix includes an individual assessment against the technical accounting criteria of specific technical issues where UK stakeholders raised some practical challenges.
- B2. The technical accounting issues assessed in this Appendix are:
- a) Issue 1: Classification of income and expenses from associates and joint ventures accounted for using the equity method in the investing category.
  - b) Issue 2: Accounting policy choice for the classification of income and expenses for entities that provide financing to customers.
  - c) Issue 3: Disclosure of the income tax effect and the effect on non-controlling interests (NCIs) in the management-defined performance measures (MPM) reconciliation.

## Issue 1: Classification of income and expenses from associates and joint ventures accounted for using the equity method in the investing category

### IFRS 18 requirements

- B3. IFRS 18 requires entities to classify all income and expenses from investments in associates and joint ventures accounted for using the equity method ('equity-accounted investments') in the investing category of the statement of profit or loss. This includes (a) the entity's share of profit or loss from associates, joint ventures and unconsolidated subsidiaries; and (b) other income and expenses from those investments (e.g. impairment losses). This approach reflects that investments in associates and joint ventures generate returns individually and largely independent of the entity's other resources.
- B4. This is consistent with other income and expenses classified in the investing category. The same presentation requirement applies to income and expenses

from subsidiaries in separate financial statements accounted for using the equity method in accordance with paragraph 10(c) of IAS 27 *Separate Financial Statements*.

- B5. The classification in the investing category is independent of whether the entity has equity-accounted investments in associates and joint ventures that are considered 'part of an entity's main business activities or whether the entity invests in assets as a main business activity (i.e. meets the definition of a specified main business activity).
- B6. In addition, the transitional provisions in paragraph C7 of IFRS 18 allow an eligible entity to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures*<sup>80</sup> to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss (FVTPL) in accordance with IFRS 9 *Financial Instruments* at the date of initial application of IFRS 18 and to classify the income and expenses from such investments in the operating category when they are investments as a main business activity.

## Accounting impact

- B7. IAS 1<sup>81</sup> requires the separate presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method without specifying where this line item should appear in the statement of profit or loss. The requirements in IFRS 18 will change the presentation of this item, where an entity considers that its associates and joint ventures are 'integral' to its main business activities.
- B8. The results from the UKEB Preparer survey revealed that some entities in the insurance, utilities or banking sectors in the UK have 'integral' investments in associates and joint ventures. Respondents to this survey were of the view that entities should have flexibility to classify equity-accounted investments in the operating category when these investments are considered:
- part of the entity's main business operations; or
  - strategic partnerships. For example, joint ventures are commonly used in large-scale infrastructure projects that require substantial capital to develop and structure large-scale infrastructure projects.
- B9. In their view requiring the classification of the results from 'integral' investments in 'investing' (i.e. outside the operating category) may not allow users to understand

<sup>80</sup> This is when, in accordance with paragraph 18 of IAS 28, such an investment is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

<sup>81</sup> Paragraph 82(c) of IAS 1.



the true nature and strategic value of these investments within the entity's main business operation.

- B10. Another example is entities with specified main business activities such as insurance entities investing in assets. Respondents to the UKEB Preparer survey emphasised the importance of presenting income and expenses from investments in associates and joint ventures that are linked to insurance contracts (e.g. that are backing up liabilities) within the operating category. This is because it is common practice to include those results as part of 'net financial result' (investment income minus insurance finance income and expenses) which is an important indicator of an insurer's operating performance. IFRS 18 in their view would generate a mismatch as the operating category would contain insurance finance income and expenses from insurance contract liabilities but might not contain all the associated investment income from the assets held to service those liabilities. Some insurance entities consider that this may prevent users from understanding and correctly evaluating their performance.
- B11. These concerns have been acknowledged by the IASB (for example, in paragraphs BC114–BC115 of IFRS 18's Basis for Conclusions). The IASB concluded that specifying the location of income and expenses from equity-accounted investments in associates and joint ventures in a single category (i.e. the investing category) for all entities (including those that invest in assets as a specified main business activity):
- a) Provides users with a consistent starting point for their analysis.
  - b) Is consistent with the way users of financial statements use information to analyse investments in associates and joint ventures. In this respect, users typically consider the results of equity-accounted investments to be different from other results, for instance because they are a blend of different amounts (i.e. operating, investing, financing and tax amounts of the investee). In addition, the investing entity does not control these results as it exercises only significant influence over an associate or joint control over a joint venture.
  - c) Avoids making an artificial identification of investments that are considered part of the entity's main business activities which in the IASB's view would have led to:
    - i. complexity and diversity in practice (given that the nature and purpose of investments in associates and joint ventures differ); or
    - ii. an opportunistic application of such a requirement.
- B12. The IASB acknowledged that a presentation 'mismatch' may occur in the statement of profit or loss of insurance entities i.e. when excluding income and expenses of equity-accounted investments in associates and joint ventures from the 'operating' category. However, it further observed that this potential 'mismatch':

- a) Would be entity-specific and it would depend on whether the insurer accounts for these investments using the equity method or measures them at fair value through profit or loss, in which case no mismatch would arise as the insurer would be able to classify those income and expenses within the operating category.
- b) May be material for some insurers but it did not appear to be pervasive in the insurance industry.

B13. This new presentation requirement in IFRS 18 will only impact the entities that have equity-accounted investments. The UKEB Secretariat conducted an analysis of Reuters-Eikon data to ascertain the prevalence of associates and joint ventures accounted for using the equity method among UK listed entities. This requirement may be significant to only a small number of UK entities given that, for 2023 year-ends:

- a) only 22% of entities in the UK have this type of investment and holdings in associates and joint ventures. The total balance sheet value of these investments was approximately £124 billion as of 2023 year-ends, accounting for 1% of total assets of all listed entities; and
- b) equity-accounted investments in associates and joint ventures were highly concentrated among few large companies. For instance, the five entities with the largest holdings in joint ventures and associates accounted for nearly 60% of all holdings.

B14. This analysis also revealed that equity-accounted investments in joint ventures and associates in the insurance sector were held by about 47% of listed insurers. However, these investments made up a small proportion (0.3%) of the total assets of listed insurers (adding up to £4 billion).

B15. The UKEB observes that requirements in IFRS 18 will permit entities to inform users that their equity-accounted investments are closely related to their main business activities. For example, by:

- a) presenting a line item for income and expenses from investments in associates and joint ventures accounted for using the equity method (if this provides a useful structured summary)<sup>82</sup> immediately below its operating profit so that users could consider this line item as part of its analysis;
- b) presenting an additional subtotal that would add together operating profit and income and expenses from investments in associates and joint ventures accounted for using the equity method. This may be when an

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<sup>82</sup> In line with paragraph 73 of IFRS 18.

entity disaggregates into one or more line items income and expenses from associates and joint ventures with dissimilar characteristics<sup>83</sup>;

- c) providing additional information in the notes disclosing any impact on the operating result<sup>84</sup>;
- d) disclosing an MPM that adjusts 'operating profit'; and/or
- e) changing the measurement of an investment in an associate or joint venture from the equity method to FVTPL on transition to IFRS 18<sup>85</sup>. This change would enable an entity to present the results of those investments as part of the 'operating' category. The results from the UKEB Preparer survey indicated, however, that some respondents did not support the election offered on transition to IFRS 18 because:
  - a) introducing an election would impair comparability across entities in the same sector/industry;
  - b) the election offered on transition is limited to eligible entities;
  - c) using fair value to measure an investment in an associate or joint venture would:
    - i. increase earnings volatility in profit and loss, which may lead to the presentation of additional performance measures;
    - ii. add a layer of complexity and subjectivity in the measurement of these investments, for example, in determining the fair value of unlisted investees; and
    - iii. be onerous as entities will be required to prepare disclosures under other IFRS Accounting Standards.

## Assessment against the technical accounting criteria

B16. The UKEB acknowledges the concerns from preparers resulting from classifying the results from all equity-accounted investments in the investing category. In the view of some stakeholders this could lead to the presentation of information that is not **relevant** or **understandable**. Some preparers also consider that presenting the results from those investments outside 'operating' will not provide **reliable** information of their operating performance.

B17. In contrast, users consider that this information will be **relevant, reliable** and **understandable**, because requiring a single classification in the investing category

<sup>83</sup> See paragraph BC120 of IFRS 18.

<sup>84</sup> For example, in line with paragraph 20 of IFRS 18 which allows entities to provide additional disclosures to enable users to understand the effect of transactions in the entity's financial performance.

<sup>85</sup> In line with the election available in paragraph C7 of IFRS 18.

better aligns with the way users of financial statements use information to analyse investments in associates and joint ventures and avoids disrupting their analyses of operating margins. Users are also of the view that prescribing a consistent classification for income and expenses of equity-accounted investments will reduce diversity in practice and bring **comparability** as it will provide a consistent 'anchor' for users for their analysis.

- B18. The concern expressed by preparers during our outreach activities about the potential lack of **understandability** of the nature of investments that are integral to an entity's main business activities being excluded from the operating category, can be mitigated by preparers by using other aspects of IFRS 18. Paragraphs B15(a)–(e) above give examples of some different presentations that could help.

## Issue 2: Accounting policy choice for the classification of income and expenses for entities that provide financing to customers

### IFRS 18 requirements

- B19. Paragraphs 65–66 of IFRS 18 require an entity that provides financing to customers to sub-categorise the income and expenses derived from liabilities that arise from transactions that *involve only the raising of finance* into the following:
- a) If the income and expenses are from liabilities that *relate* to the *provision of finance to customers*, these are classified in the 'operating' category.
  - b) If the income and expenses are from liabilities that *do not relate to providing financing to customers*, an entity has an 'accounting policy choice' to classify these income and expenses in:
    - i. the financing category; or
    - ii. the operating category, when an entity cannot distinguish between liabilities that relate to providing financing to customers and those that do not. The outcome will be that the operating category will include *all* income and expenses derived from transactions that involve *only* the raising of finance.

### Accounting impact

- B20. IFRS 18 replaces the requirement in IAS 1 to present 'finance costs' as a separate line item (paragraph 82(b) of IAS 1) by introducing a separate 'financing' category. An entity that provides financing to customers is also required to follow specific classification requirements for specific types of liabilities (see paragraph B19 above). IFRS 18 also requires the exercise of judgement in determining which line

items of income and expense an entity presents to provide a useful structured summary<sup>86</sup>).

- B21. As described in paragraph 2.12 approximately 30% of UK-listed entities is expected to have specified main business activities. Entities that provide financing to customers will be able to use the accounting policy choice to present income and expenses that are not related to the provision of financing to customers either in the operating category or in the financing category.
- B22. The UKEB Secretariat response to the IASB's Exposure Draft *General Presentation and Disclosures*<sup>87</sup> indicated that there is currently diversity of practice in the UK amongst entities that provide finance to customers as a main business activity. For example, it was observed that:
- a) Entities in the financial sector typically present the income and expenses derived from the provision of finance to customers within the operating category.
  - b) Other (non-financial) entities that provide financing to customers as a main business activity (e.g. entities that manufacture or retail goods as well as providing financing to customers as a main business activity) present the results of the provision of financing to customers either in the operating category or in the financing category.
- B23. Feedback on the UKEB Preparer survey, revealed that a majority of respondents agreed with the requirements in IFRS 18 for entities with specified main business activities and observed that these requirements will have the following benefits:
- a) bring more comparability and consistency for investor's analysis;
  - b) provide a more faithful representation of the nature of an entity's main business activities (for example, by excluding from operating profit income and expenses not directly related to an entity's main business activities); and
  - c) allow these entities to portray their operations in a better way by giving them a choice in the presentation of certain income and expenses.
- B24. Some members of UKEB advisory groups and UKEB working group noted that the application of the accounting policy choice that is permitted for entities that provide financing to customers as a main business activity would **reduce comparability**. This view was shared by a couple of preparers who responded to the UKEB Preparer survey. Users however have not commented on this topic. Feedback from an IASB's fieldwork exercise<sup>88</sup> shows that entities may apply this

<sup>86</sup> See paragraph 24 of IFRS 18.

<sup>87</sup> See paragraph A18 in the [UKEB Secretariat response to the IASB's Exposure Draft on General Presentation and Disclosures](#).

<sup>88</sup> See paragraphs 21–22 of [IASB July 2022 meeting agenda paper 21B](#).

accounting policy choice in different ways which could lead to diversity in practice.

## Assessment against the technical accounting criteria

B25. This section assesses:

- a) The requirement to classify income and expenses that relate to the provision of finance to customers as part of the operating category; and
- b) The accounting policy choice to present income and expenses that are not related to the provision of financing to customers either in the financing category or in the operating category.

### Classification of income and expenses *related* to the provision of finance to customers

B26. The requirement to classify income and expenses that *relate* to the *provision of finance to customers* as part of the *operating* category will lead to:

- a) **relevant** financial information for users' decision-making process as it will enable entities to present in 'operating' the income and expenses that are related to an entity's main business activities and present key measures of operating performance. For example, as acknowledged by the IASB in paragraph BC180 of IFRS 18, it will enable an entity to present the difference between the interest revenue from that main business activity and the related interest expense incurred to obtain the financing needed for that main business activity.
- b) **reliable** information as entities will be able to provide a faithful representation of the results for an entity's operations for the period.
- c) **comparable** information for users, as well as allowing users to have a better **understanding** of an entity's operating performance.

### The accounting policy choice to present income and expenses that are *not related* to the provision of financing to customers

B27. The UKEB acknowledges that having an accounting policy choice to present income and expenses that are *not related* to the provision of financing to customers either in the *financing* category or in the *operating* category may pose some risks to the **comparability** of the information presented in the statement of profit or loss and lead to diversity in practice.

B28. As acknowledged by the IASB (refer for example to paragraphs BC182 and BC185 of the Basis for Conclusions in IFRS 18), this accounting policy choice arises because it might not be possible for certain entities, for example those with a central treasury function, to easily distinguish the income and expenses from liabilities that relate to providing financing to customers in a non-arbitrary way and



without undue cost or effort. Therefore, any **risks to comparability** need to be balanced against other criteria or mitigating factors depending on the choice an entity makes. For instance, a choice to:

- a) Classify income and expenses that are *unrelated* to the provision of in the *financing* category will lead to **enhanced relevance** and **reliability** of the information presented as it would provide users with a **fair representation** of an entity's business performance (i.e. by classifying income and expenses that are unrelated to the provision of finance to customers outside an entity's operations).
- b) Classify all income and expenses that arise from transactions that involve only the raising of finance in *operating* (including the portion that is unrelated to the provision of finance), could potentially **reduce the relevance** and **reliability** of the information presented as the operating category will include income and expenses that are unrelated to the entity's main business operations. However, avoiding arbitrary allocations may also enhance the **relevance** and **reliability** of the information presented. In addition, the potential loss of **comparability** would be mitigated by the benefits of providing preparers with a practical option that would reduce their costs of application when they are unable to easily distinguish between income and expenses that relate to the provision of finance to customers.

B29. The **reduced comparability** can also be mitigated by separate disclosures<sup>89</sup> so that users are able to **understand** the choice made by the entity as well as the nature and significance of the income and expenses recognised *within* and *outside* the operating category. This could help users analyse and compare the information presented.

## Issue 3: Disclosure of the income tax effect and the effect on non-controlling interests (NCIs) in the MPM reconciliation

### IFRS 18 requirements

B30. IFRS 18 requires an entity to disclose information about its MPMs in a single note to the financial statements, including the disclosure of the income tax effect and the effect on NCIs for each item disclosed in the MPM reconciliation (in line with paragraph 123(d) of IFRS 18).

<sup>89</sup> In line for example with paragraph 117 of IAS 1 which requires an entity to disclose material accounting policy information. Note: IFRS 18 moved this paragraph to IAS 8 (as paragraph 27A).



- B31. Paragraph B141 of IFRS 18 requires an entity to determine the income tax effects of the underlying transactions using the following approaches:
- At the statutory tax rate applicable to the transaction.<sup>90</sup>
  - Based on a reasonable pro-rata allocation of the current and deferred tax of the entity.
  - By using another method that achieves a more appropriate allocation.
- B32. This section will focus on the disclosure of the income tax effect and the effect on NCI for each reconciling item in the MPM reconciliation.

## Accounting impact

- B33. As mentioned in paragraph 2.30, most UK entities currently use ESMA's guidelines to report Alternative Performance Measures (APMs). These guidelines do not require an entity to disclose the income tax effect and the effect on NCIs for each reconciling item in the reconciliation of APMs.
- B34. Entities may already disclose information about APMs in the financial statements by providing a reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements. However, entities may need to change this disclosure to comply with the requirement in IFRS 18 to disclose within the MPM reconciliation the income tax effect and the effect on NCIs for each reconciling item.

## Impact of the disclosure of the income tax effect

- B35. The impact of disclosing the income tax effect for each reconciling item in the MPM reconciliation would depend on the entities' current practices in disclosing information about performance measures.
- B36. Desk-based research indicates that most entities currently disclose the aggregated tax effect for the combined reconciling items (and not for each individual reconciling item)<sup>91</sup> and that only some preparers include the tax effect for each reconciling item<sup>92</sup>.
- B37. The results from the UKEB Preparer survey indicated that just over half of the respondents do not include the tax effect for each reconciling item. The reasons are that:

<sup>90</sup> This 'simplified' approach was developed by the IASB to alleviate the costs of preparing disclosures about the tax effects (Paragraph BC386 of IFRS 18).

<sup>91</sup> Section 15 of [FRC Thematic Review: Alternative Performance Measures \(APMs\)](#), October 2021.

<sup>92</sup> Section 1 of Financial Reporting Council (FRC)'s [Thematic Review: Alternative Performance Measures \(APMs\)](#) (October 2021) states that "Disclosures about tax relating to individual categories of adjusting items were not always provided, and APM accounting policies rarely explained tax matters, including companies' policies for classifying unusual tax items as adjusting items."

- i. their reconciliation is to operating profit so adding the tax effects is viewed as unnecessary;
- ii. the tax effects would be immaterial;
- iii. the tax effects would be of little value, as users in other jurisdictions do not normally request this information; and
- iv. the tax effects are normally provided aggregated for the combined reconciling items and not for each individual reconciling item.

- B38. Entities that currently disclose aggregated tax effects or no tax effects in their reconciliations of performance measures are expected to incur additional costs to prepare this disclosure. The amount of costs would depend on whether the information is readily available internally. Nonetheless, all entities may incur additional costs in having the reconciliation of MPMs audited, as entities may need to develop or revise the internal processes and/or prepare documentation for preparing the reconciliation. The details of the cost implication on auditing these performance measures are in [Section 4](#) and [Appendix C](#).
- B39. One member from AFIAG noted that the requirements on the effects of tax and NCIs in the MPM reconciliations could lead to additional work, but not necessarily useful information<sup>93</sup>. Another member welcomed more guidance around these requirements.
- B40. The UKEB Secretariat conducted an analysis of Reuters-Eikon data's analysis of the prevalence of NCI amounts among UK listed entities. This analysis showed that at a market level, NCI amounts are immaterial as they account for roughly 2.5% of total net assets for 2023 year-ends. For a limited number of UK-listed entities (less than 50), non-controlling interests made up greater than 10% of net assets.

## Assessment against the technical accounting criteria

- B41. Feedback from users indicates that information on tax and NCI effects is useful for making necessary adjustments for their analysis. As mentioned in paragraphs BC384–BC385 of IFRS 18, users need information about the amounts of the adjustments attributable to owners of the parent and the tax effects of those adjustments to be able to adjust management's adjusted earnings per share (EPS) figure to calculate their own EPS measure (which will be based only on the adjustments they want to consider in their analysis). Therefore, having the required information for each reconciling item and within the financial statements would improve both the confirmatory and predictive value of this information. This will provide users with **relevant** information.
- B42. In addition, feedback received by the IASB from users indicates that having high-level information about the tax effects (by applying the different approaches in

<sup>93</sup> This may be that a simplified approach for calculating income tax effects may exclude some tax effects.

paragraph B141 of IFRS 18) would meet user needs (refer to paragraph BC386 of IFRS 18). Some PAG members noted that the three approaches available to calculate the income tax effects for each item disclosed in the MPM reconciliation should allow entities to obtain reasonable estimates of the tax effects for each reconciling item. This could potentially reduce the complexity and potential costs of preparation of this information. Although input from one member suggests that these options may be more difficult to apply for circumstances where an entity has for example, the Pillar 2 top-up tax<sup>94</sup>.

- B43. The requirement in IFRS 18 to disclose how the income tax effects are calculated<sup>95</sup> along with the assurance from the auditing of this information is also expected to provide users with **reliable** MPM information.
- B44. The requirement to disclose the tax and NCI effects and how tax effects are calculated has also been welcomed by the user community as it is expected to improve transparency on the calculation of MPMs and enable users to **understand** the underlying calculation of these performance measures.
- B45. Likewise, the requirements in IFRS 18 to disclose any changes on how an entity determines the income tax effects of reconciling items as well as restated comparative information<sup>96</sup> will enable users to **compare** the financial performance both from one financial period to another and across different entities.

<sup>94</sup> However, PAG members did not consider the effect of the Pillar 2 top-up tax to be significant, as the effect will be limited to operations in the jurisdictions that have a corporate tax rate of less than 15%.

<sup>95</sup> In paragraph 123(d) of IFRS 18.

<sup>96</sup> In line with paragraph 124 of IFRS 18.

# Appendix C: Evidence about costs and benefits for preparers

- C1. This Appendix reports detailed evidence that underpins the costs and benefits analysis conducted as part of the long-term public good assessment in [Section 4](#).

## Survey results

- C2. The UKEB Preparer survey gathered information about incremental one-off and ongoing costs, with preparers having the option to express them as either:
- a) a percentage of the costs of preparing accounts as of previous year-end (referred to as **baseline costs** in the remainder of [Appendix C](#))<sup>97</sup>; or
  - b) a percentage of operating costs.
- C3. Questions on direct implementation costs focused on the following categories:
- a) Familiarisation.
  - b) Accounting system changes.
  - c) Changes to data handling processes and controls.
  - d) Accounts preparation.
  - e) Communication with third parties.
  - f) Audit costs.
  - g) Legal costs.
- C4. In summary, respondents indicated the following:
- a) **Incremental one-off costs expressed as a share of baseline costs.**  
Preparers anticipated incurring some one-off costs as a result of IFRS 18. In particular, entities expected to incur extra audit costs (approximately 30% of the respondents expected these to be 5% of their baseline costs or

<sup>97</sup> Baseline costs were defined in the survey as costs a company incurred to prepare their most recent set of annual financial statements. The following instructions were included in the survey: the cost figure is at group level (consolidated), if possible; comprised of: ongoing accounting system maintenance, staff costs; audit and legal costs; inclusive of any costs incurred to prepare interim reporting; exclusive of, to the extent possible, costs of producing non-financial statements information, such as the first half of the annual report or investors' presentations.

above), accounts preparation costs (25% of the respondents expected these to be 5% of their baseline costs or above) and familiarisation costs (9% of the respondents expected these to be 5% of their baseline costs or above). Overall, however, preparers expected one-off costs to be relatively small, with the majority of respondents indicating that they expected them to be lower than 5% of baseline costs for all cost categories.

- b) **Incremental ongoing costs expressed as a share of baseline costs.**  
Preparers anticipated incurring some ongoing costs as a result of adopting IFRS 18. These were expected to be much smaller than one-off costs. Preparers expected to incur extra audit costs on an ongoing basis, but also some accounts preparation and accounting system maintenance costs. For all cost categories, the majority of respondents expected incremental ongoing costs to be nil or less than 1% of baseline costs.
- c) **Incremental one-off costs expressed as a share of operating costs.**  
Consistent with the rest of the results, preparers anticipated incurring some one-off costs as a result of IFRS 18, particularly related to external audit, accounting system changes, accounts preparation and familiarisation. However, when expressed as a share of operating costs, preparers considered these to be minimal: for all cost categories, most respondents expected incremental one-off costs to be negligible or less than 1% of operating costs.
- d) **Incremental ongoing costs expressed as a share of operating costs.**  
Consistent with the rest of the results, preparers anticipated incurring some ongoing costs as a result of IFRS 18, though they expected these to be smaller than one-off costs. Preparers expected to incur extra audit costs on an ongoing basis, but also some accounts preparation and accounting system maintenance costs. For all cost categories, most respondents expected incremental ongoing costs to be negligible or less than 1% of operating cost.

C5. On balance, preparers suggested that they expect to incur ongoing costs for a few years till they are subsumed into business as usual. Views varied:

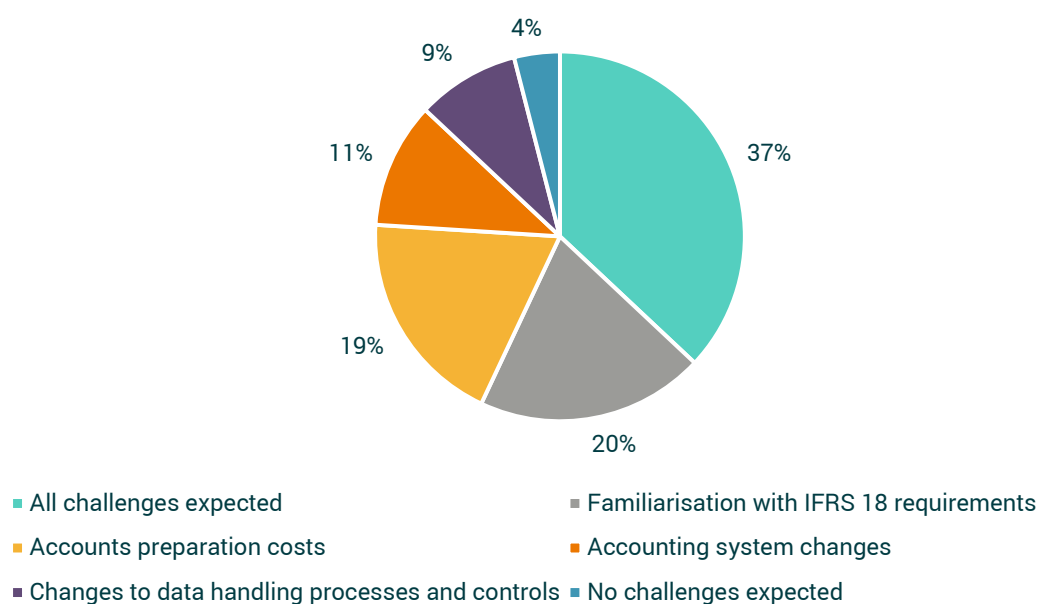
- a) At one extreme, some preparers anticipated incurring extra ongoing costs permanently.
- b) At the other extreme, some preparers suggested that they would incur no ongoing costs at all.

On average, preparers expected to incur extra costs for a period of five years before they were subsumed into business as usual.

C6. The survey results are broadly consistent with the results of third-party research discussed later in this Appendix.

- C7. The UKEB survey results are also broadly consistent with the those of a poll conducted by ICAEW during a webinar on IFRS 18 held in October 2024, which aimed to gather audience feedback on the expected challenges of the Standard's implementation<sup>98</sup>.
- C8. The poll provided four categories of expected implementation challenges:
- a) Accounts preparation.
  - b) Accounting system changes.
  - c) Familiarisation with IFRS 18 requirements.
  - d) Changes to data handling processes and controls.
- C9. Respondents could also choose "All of the above" and "No challenge" options.
- C10. **Chart 3** provides a visual representation of these results as follows:

**Chart 3: Expected implementation challenges (ICAEW survey results)**



Source: UKEB analysis of ICAEW data.

## Engagement with advisory groups

- C11. Advisory groups provided the following feedback on preparers' costs and benefits associated with IFRS 18:

<sup>98</sup> ICAEW "[Introducing IFRS 18: the new standard on presentation and disclosure in financial statements](#)".

- a) **PAG:** Members observed that applying IFRS 18 would lead to limited implementation costs (as compared to the size of an entity's operations) and would generally not require significant changes to the general ledger of accounts. It was observed that, at the time of stakeholder engagement, many preparers were likely to be at an early implementation stage, which would limit the availability of cost estimates. Paragraph D3 provides detail on how the UKEB tackled this limitation.
- b) **IAG:** A member of the IAG commented that the IFRS 18 requirements may lead to more transparent financial information and allow entities to present financial information in a way that is consistent with their business model.
- c) **AFIAG:** Members observed that the approach taken by entities in implementing IFRS 18 will influence the level of costs that they will incur on adoption. For example, some entities may take a simple 'compliance approach' whereas others may take a 'wider compliance approach' in their implementation of IFRS 18 and look for additional areas of improvement in the presentation and disclosure of their financial information. These entities are likely to incur higher implementation costs.

## UKEB Webinar poll results

- C12. Webinar participants were asked about the costs they expected to incur to implement IFRS 18 on transition and in the first year of adoption. Out of 43 responses:
- a) 12% said IFRS 18 would involve very low implementation costs as their practices were mostly aligned with the requirements in IFRS 18;
  - b) 53% said IFRS 18 would involve some changes to systems, procedures and/or current practices;
  - c) 23% said IFRS 18 would involve significant and costly changes to systems, procedures and/or current practices; and
  - d) the rest (12%) did not know.
- C13. The categories utilised in the webinar poll are not directly comparable to those utilised in the UKEB Preparer Survey. However, approximately 65% of the respondents indicated that IFRS 18 is expected to lead to "some" or "very low" implementation costs. The UKEB considered this evidence to be in line with that of the UKEB Preparer survey and the interviews.

## Results from qualitative interviews

- C14. A total of 15 interviews were conducted between Q4 2024 and Q1 2025.



- C15. Interview questions were based on the survey questions, and focused on implementation costs<sup>99, 100</sup>.
- C16. Interviewees were asked to discuss incremental costs of IFRS 18 implementation, either as a share of baseline costs or as a share of operating costs. The results were broadly in line with the UKEB survey results.
- a) **One-off costs as a share of baseline costs:** Interviewees considered familiarisation and audit to be the cost categories that would experience the highest percentage increase. Legal costs and communication with third parties were the cost categories that were expected to experience the least percentage increase.
  - b) **Ongoing as a share of baseline costs:** Audit was the cost category expected to face the highest percentage increase, while legal costs and accounting system maintenance were the cost categories associated with the lowest percentage increase.
  - c) **Implementation costs as a share of operating costs:** Interviewees indicated that expected implementation costs would be minimal as compared to operating costs.
- C17. The following overarching themes emerged from the interviews:
- a) **IFRS 18 implementation is not anticipated to be particularly costly:** Interviewees suggested that implementation of IFRS 18 is not going to be particularly burdensome, especially as compared to other recent standards, such as IFRS 15 *Revenues from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*. The main reason is that IFRS 18 does not change the recognition and measurement of the components of financial statements. Preparers expected the additional disclosures, in particular around MPMs, to be not too burdensome to prepare or audit, as most preparers already disclose Alternative Performance Measures (APMs). Implementation costs would comprise both monetary costs (e.g. external audit) and staff reallocation costs (e.g. familiarisation). Some preparers indicated that they already present their statement of profit or loss in a way that is consistent with IFRS 18 requirements and therefore do not anticipate incurring any major implementation costs.
  - b) **Implementation costs are a function of complexity, and not *just* size:** Preparers indicated that implementation costs associated with IFRS 18 are not just a function of company size but also of the complexity of the

<sup>99</sup> Specifically, the interviews sought to get information on: demographics; the structure and composition of their baseline costs; the structure and composition of the incremental costs associated with the implementation of the standard; any cost savings or other direct benefits associated with the standard; qualitative information the costs associated with implementing specific requirements; whether they would like to state a revised/second opinion on the cost estimates or aggregate costs.

<sup>100</sup> Interview questions available at: [Implementation Costs Questions.pdf](#)

business. More specifically, the size of implementation costs would depend on whether the business has: specified main business activities; investments in joint ventures and associates accounted for using the equity method; non-controlling interests; foreign exchange transactions. Preparers suggested that two companies of similar size may face very different implementation costs depending on the complexity of their businesses. These features are more likely to affect one-off costs rather than ongoing costs. IFRS 18 includes cost mitigations that are likely to affect the scale of one-off costs. Estimates provided by preparers were consistent with this assertion.

- c) **Approach to compliance will vary:** Preparers indicated that they expect to approach the implementation of IFRS 18 differently. Some would make only the minimum necessary changes to comply with IFRS 18, whereas others would use the implementation of IFRS 18 as an opportunity to thoroughly re-think their profit or loss presentation as well as their disclosures. Most entities positioned themselves between these two approaches, with more complex businesses more likely to reconsider their approach to presentation.

C18. On the individual items that comprise implementation costs, interviewees provided the following feedback:

- d) **Familiarisation:** respondents noted that familiarisation would entail reallocation of existing staff's time to tasks such as reading IFRS 18, preparing and disseminating accounting papers and organising internal seminars. Most respondents indicated that no extra monetary costs will be incurred (e.g., external training). Some respondents considered meetings with auditors to discuss the new requirements as part of their familiarisation costs.
- e) **Changes to accounting systems:** preparers generally agreed that they were not anticipating undergoing major accounting system changes as a result of applying IFRS 18 requirements. Some preparers indicated that changes can be performed in-house (i.e. staff time re-allocation) and would require relatively simple re-mapping to relabel the income and cash flow statements, and to move items to different categories (e.g. from the operating to the investing category).
- f) **Changes to data handling processes and controls:** preparers noted that most internal accounting changes would affect templates (i.e. account preparation) but not the underlying data processes and controls because IFRS 18 does not affect recognition and measurement.
- g) **Accounts preparation:** Most preparers indicated that IFRS 18 will lead to some incremental costs associated with the adjustment of templates (one preparer commented: "everything has to be mapped"). How the adjustment of templates will be tackled will largely depend on internal processes. Some preparers indicated that the process will be done manually and in-

house and involving staff time reallocation without extra monetary costs. Preparers noted that while the amendment of templates was anticipated to be a significant one-off change, associated ongoing cost would be much smaller. Some preparers said that incremental costs for them would be minimal as they already present information in line with IFRS 18 requirements.

- h) **Communication with third parties:** preparers anticipated incremental costs associated with communication with third parties to be minimal. In some cases, communication to investors, banks and shareholders would be done through an agency (thus leading to extra monetary costs) while in some other cases it would be done internally, leading to staff time reallocation.
- i) **Legal costs:** preparers anticipated incremental legal costs to be minimal or nil. A preparer said that they would incur extra legal costs to re-assess their covenants.
- j) **Audit costs:** consistent with the UKEB survey results, most interviewees anticipated audit costs to increase as a result of the implementation of IFRS 18. The size of the increase varied between preparers. Preparers with relatively less complex operations anticipate smaller extra audit costs. A preparer stated: "Once [the] auditors believe [we] have an acceptable interpretation of IFRS 18, there may be some work to do, but not big". Another preparer said that audit fees would be "more in the first year" but going forward would be less than 1% of baseline costs. A preparer stated that once IFRS 18 is implemented, the ongoing audit costs will be part of their day-to-day responsibilities. Another preparer said IFRS 18 adds no extra hours to their audit.
- k) **Other costs:** Some preparers noted that there would be some management time reallocation to support the process changes associated with the implementation of IFRS 18.

C19. Interviewees' views on the length of ongoing costs were consistent with those from the UKEB Preparer Survey.

## Third-party work on the economic assessment of IFRS 18

C20. Desk-based research formed part of the evidence that the UKEB used for the [Draft] ECA. This section summarises the work carried out by other organisations on the costs and benefits of applying IFRS 18. The results of third-party research are broadly in line with those reported by the UKEB in this [Draft] ECA.

## IASB Effects Analysis

C21. When the IASB published IFRS 18, the Effects Analysis alongside the Standard reports on the likely costs and benefits associated with the new requirements at an international level.

- C22. The IASB gathered evidence on the topic largely through consultation, outreach with stakeholders (users, preparers, regulators, standard-setters, accounting firms and academics) and fieldwork.
- C23. The main results are as follows.

### Implementation costs:

- C24. **Preparers:** Preparers are expected to incur some implementation costs, attributable mainly to: changes in internal processes and controls; changes to information systems; training for staff and management; and communication (internally and to third parties). Most implementation costs are anticipated to be one-off. The size of ongoing costs will largely depend on how IFRS 18 is applied. For example, companies might incur ongoing costs if application of the requirements leads to a change in how they communicate performance. The Standard may also result in ongoing costs if a company's processes require the manual collection of data. Ongoing costs are nonetheless expected to gradually reduce and be subsumed into business as usual.
- C25. **Users:** Users will likely incur some minor costs to adjust models and methods of analysis to the new requirements.
- C26. **Regulators:** Regulators may face some costs to revise regulatory templates and possibly develop procedures to regulate the new requirements (e.g. the enforcement of the new requirements for MPMs).
- C27. **Auditors:** Auditors are likely to incur higher costs to evaluate the judgements entities will make to apply the new requirements (e.g. on presentation and disaggregation) and to audit the new requirements.

### Benefits for users

- C28. **Comparability:** IFRS 18 is expected to enhance comparability of financial statements by standardising the structure of the statement of profit or loss and requiring preparers to report consistent subtotals, particularly operating profit. As a result, users are expected to use time more efficiently when analysing financial statements. Users will also benefit from the use of the operating profit subtotal as a starting point for the indirect method of reporting cash flows from operating activities.
- C29. **Transparency:** The new aggregation and disaggregation requirements may lead to decision-useful items that were aggregated in the past to be presented separately in the financial statements. As a result, users would benefit from additional (audited) decision-useful information. In addition, requirements on MPMs will improve the transparency of APMs that meet IFRS 18 criteria.

## EFRAG Endorsement Advice on IFRS 18

- C30. In May 2025, EFRAG submitted its Final Endorsement Advice on IFRS 18 to the European Commission<sup>101</sup>. This assessment summarises EFRAG's technical and economic analysis on IFRS 18. In its Endorsement Advice, EFRAG confirmed the initial assessment that IFRS 18 satisfies the criteria for endorsement in the EU and therefore is recommended for endorsement<sup>102</sup>.
- C31. For its assessment, EFRAG gathered evidence through desk-based research, an analysis of 2023 annual reports and associated press releases of 45 European listed entities<sup>103</sup>. EFRAG also considered the feedback received during its field testing, targeted stakeholder outreach and from EFRAG's technical expert groups and working groups.
- C32. A summary of EFRAG's main observations derived from its economic analysis is presented below. Their results are broadly in line with those reported in this [Draft] ECA.

### Implementation costs

- C33. **Preparers:** Reporting entities will incur some initial one-off costs, but ongoing costs to comply with the new requirements should be relatively low. These results are in line with those reported in this [Draft] ECA (see paragraph 4.41).
- C34. **Users:** EFRAG does not anticipate any significant costs. While users will need to become familiar with the new requirements, the costs involved are anticipated to be minimal. These results are in line with those reported in this [Draft] ECA (see paragraph 4.34).

### Benefits

- C35. **Users:** Users provided positive feedback, indicating that:
- The new structure for the statement of profit or loss will allow for better analysis and improved comparability. These results are in line with those reported in this [Draft] ECA (see paragraphs 3.16–3.18).
  - The disclosure of MPMs in a single note and the reconciliation requirements will improve the reliability of such information. These results

<sup>101</sup> On 15 November 2024, EFRAG published its Draft Endorsement Advice (DEA) on IFRS 18 and invited stakeholders to submit comments by 26 March 2025. After considering the feedback received to its public consultation, EFRAG submitted its Final Endorsement Advice to the European Commission on 5 May 2025.

<sup>102</sup> To assess the long term public good, EFRAG analyses: (a) whether the standard improves financial reporting, (b) the costs and benefits associated with the standard, and (c) whether the standard might have an adverse effect on the European economy, including financial stability and economic growth.

<sup>103</sup> The sample of 45 European listed entities was taken from S&P Europe 350 Index and STOXX 600 constituents, which apply FRS Accounting Standards. The entities included in the sample are drawn from a number of countries (15), industries (15) and sizes (market capitalisation: <£20 Billion, 20-50, 50-90, 90-150, >£150 Billion).

are in line with those reported in this [Draft] ECA (see paragraphs 3.24–3.25).

- c) The enhanced aggregation and disaggregation requirements will lead to better understandability of the information presented. These results are in line with those reported in this [Draft] ECA (see paragraphs 3.30–3.31).

C36. **Preparers:** IFRS 18 will lead to a better presentation of preparers' performance, which may be associated with a and more efficient capital allocation. These results are in line with those reported in this [Draft] ECA (see paragraphs 4.81–4.96).

DRAFT

# Appendix D: Quantitative assessment of implementation costs

## Method and limitations

- D1. The UKEB conducted an indicative monetary estimate of implementation costs to entities that will be required to implement IFRS 18.
- D2. This assessment provides an indicative range for implementation costs. It should **not** be interpreted as an accurate forecast of implementation costs.
- D3. To assess implementation costs, the UKEB used the following approach:
- a) **Sample collection:** The UKEB surveyed/interviewed a sample of preparers asking them to report monetary estimates of anticipated implementation costs<sup>104</sup>.
  - b) **Regression model estimation:** For the entities sampled, implementation costs were regressed against revenues, as revenues are expected to be highly correlated.
  - c) **Extraction of market-wide estimates:** The regression estimates were used to predict implementation costs for the UK-listed entities that did not provide information during stakeholder engagement. Market-wide estimates were then obtained by totalling all entity-level estimates.
- D4. Sample data points on implementation costs were retained only from survey respondents/interviewees who reported absolute monetary cost estimates<sup>105</sup>. Cost data points were generally utilised as reported.
- D5. The following limitations apply:
- a) **Sample size:** the assessment is based on a small sample not representative of the population.
  - b) **Model specification:** the regression model is very simple, including only one variable (revenues).

<sup>104</sup> Both the survey and the interview questionnaires invited preparers to carefully ponder the composition and the size of implementation costs. This limits the risk that the data collected was based on approximate assessments. Follow-up interviews were conducted to validate the figures when the cost estimates necessitated further explanations, which led to revised figures in a limited number of cases.

<sup>105</sup> Many respondents only reported relative costs estimates as a share of baseline/operating costs. No further calculations were conducted as relative figures were considered too broad to infer precise estimates.



- c) **No causality:** the interpretation of the results is not causal, and the regression estimates ought to be interpreted as correlations.
- d) **Ex-ante estimates:** the assessment is based on ex-ante cost estimates provided by finance department staff. The UKEB made all possible efforts to limit bias and imprecision when collecting data (see paragraph 4.50). However, it is possible that preparers exercised caution, and estimates may lay at the higher end of the distribution.

## Analysis of sample responses

- D6. The UKEB collected 18 observations from survey responses and interviews<sup>106</sup>.
- D7. The UKEB also collected consolidated (source: Reuters-Eikon) as implementation costs are typically correlated with the size of an entity<sup>107</sup>.
- D8. Summary statistics for these respondents are as follows:

**Table 8: Summary statistics**

Indicator	Minimum	Maximum	Average	Median
Revenues	£1.5 million	Approx. £15 billion	£3.2 billion	£1.6 billion
One-off costs	£0	£3 million	£312,000	£100,000
Ongoing costs (per annum)	£0	£150,000	£29,000	£10,000

Sources: Reuters-Eikon, UKEB proprietary data. Sample comprised of 18 companies. Data collected through the UKEB Preparer Survey and 1-2-1 interviews.

- D9. Entities in the sample ranged from relatively young businesses listed on AIM to established businesses included in the FTSE100. This is reflected in the range of revenues, spanning from as little as £1.5 million to as much as over £10 billion. Entities belonged to a variety of industries, including technology, asset managers, manufacturers and utilities.
- D10. Implementation costs estimates are comprised of both external monetary costs (e.g. audit fees, legal costs) and staff time reallocation. This ensured the inclusion of opportunity costs in the estimates.
- D11. **One-off costs** spanned from as little as zero to a maximum of £3 million. The maximum is attributable to a large entity with operations in the range of tens of billions of pounds. Median implementation costs equal £100,000, meaning that

<sup>106</sup> Two outliers were removed from the analysis.

<sup>107</sup> It is acknowledged that, for the implementation of IFRS 18, implementation costs are related to both size and complexity, however complexity cannot be easily measured, so for the purpose of this calculation only size is used.

half of the respondents in the sample anticipated spending £100,000 or less on a one-off basis. Average implementation costs were equal to £312,000. The average higher than the median reflects the presence of large entities in the sample.

- D12. **Ongoing costs** spanned from as little as zero to a maximum of £150,000. The maximum is attributable to a large entity with operations in the range of tens of billions of pounds. Median implementation costs equal £10,000, meaning that half of the respondents in the sample anticipated spending £10,000 or less per year on an ongoing basis. Average implementation costs were equal to £29,000. The average higher than the median reflects the presence of large entities in the sample.
- D13. Both the average and median ongoing costs are approximately 10% of one-off costs.

## Regression model estimation

- D14. The UKEB estimated the following regression model:

$$\text{One-off implementation Costs}_i = \beta_0 + \beta_1 \text{Revenues}_i + u_i(1)$$

- D15. Where one-off implementation costs are the cost figures collected through stakeholder engagement, revenues are an indicator of company size, and  $u_i$  is an error term.
- D16. The model delivered the following estimates<sup>108</sup>:

**Table 9: Regression estimates**

Dependent variable	One-off implementation costs
Revenues - $\widehat{\beta}_1$	0.000128*** (5.03)
Constant - $\widehat{\beta}_0$	-95,404.3 (0.09)

Source: UKEB estimates using Reuters-Eikon and proprietary data. t statistics in parentheses. \* p<0.05, \*\* p<0.01, \*\*\* p<0.001. R-squared: 61%. Number of observations: 18.

- D17. The estimates have the following interpretation:

- a) **Revenues:  $\widehat{\beta}_1$** : The estimate indicates that a company whose revenues are £1 billion larger is anticipated to spend an additional £128,000 in one-off

<sup>108</sup> In terms of economic interpretation, the intercept,  $\beta_0$ , is a fixed cost component that would be incurred by any company no matter their features. The respective coefficients,  $\beta_1$  and  $\beta_2$ , relate to the variable cost component relating different indicators. For example, coefficient  $\beta_1$  would indicate by how much implementation costs would increase subject to a unit increase in the size indicator.

costs. There is a statistically strong relationship between revenues on one-off costs: the null that the coefficient is equal to zero is rejected with 99% probability. The estimate lies between 0.00007 and 0.00018 with 95% probability.

- b) **Constant:  $\widehat{\beta}_0$ :** The negative coefficient does not have a meaningful economic interpretation. This coefficient is statistically not distinguishable from zero, suggesting that implementation costs are scalable. This result is consistent with feedback from interviewees and data points collected from survey respondents and interviewees.

D18. Based on the estimates obtained, a company with revenues equal to £3.2 billion (the average in the sample) would spend approximately £410,000 on a one-off basis.

## Extraction of market-wide estimates

D19. The regression coefficients are used to extrapolate implementation costs for entities for which cost information was not obtained.

D20. Extrapolation on the population of entities that would be required to apply IFRS 18 delivers market-wide one-off approximate estimates as below:

**Table 10: Market-wide one-off implementation costs estimates**

Lower bound estimate $\widehat{\beta}_1 = 0.000073$	Mid-point estimate $\widehat{\beta}_1 = 0.000128$	Upper bound estimate $\widehat{\beta}_1 = 0.00018$
£155 million	£265 million	£380 million

Source: UKEB estimates using Reuters-Eikon and proprietary data. The estimates are normally distributed, which means that lower and upper bounds are not as likely as the mid-point estimate.

- D21. The estimates are comprised of incremental external monetary costs, such as audit fees and legal costs, as well as opportunity costs associated with staff time reallocation (such as familiarisation, changes to templates and data handling processes). With reference to the mid-point estimate of £270 million, an approximate allocation of costs based on an analysis of survey results indicates that approximately £65 million could be attributed to incremental audit fees, with the remaining costs attributable to staff-time reallocation.
- D22. In the sample, ongoing costs per annum are on average 10% of one-off costs (see **Table 8** and paragraph D13). The UKEB used this rule of thumb to estimate market-wide implementation costs using the formula below.
- D23. **Ongoing costs:** Ongoing costs per entity are calculated as the present value (PV) of annual ongoing costs. These were calculated using the following formula:

$$Total\ ongoing\ costs = \sum_{i=1}^5 Annual\ ongoing\ costs * (1 + 3.5\%)^{-i} \quad (2)$$

- D24. 3.5% is the rate typically used to discount costs and benefits in the BRF. The appraisal period is 5 years based on survey and interview results<sup>109</sup>.
- D25. Applying equation (2) delivers the following PV estimates for ongoing implementation costs:

**Table 11: Market-wide ongoing implementation costs estimates**

Lower bound estimate	Mid-point estimate	Upper bound estimate
£71 million	£120 million	£175 million

Source: UKEB estimates using Reuters-Eikon and proprietary data. PV value calculation based on a 10-year appraisal period, using a 3.5% discount rate.

- D26. The estimates are comprised of incremental external monetary costs, such as audit fees and legal costs, as well as opportunity costs associated with staff time reallocation (such as familiarisation, changes to templates and data handling processes). With reference to the mid-point estimate of £120 million, an approximate allocation of costs based on an analysis of survey results indicates that approximately 40% of these costs, or £45 million, could be attributed to incremental audit fees, with the remaining costs due to staff-time reallocation.

<sup>109</sup> At the March 2025 Board meeting, the UKEB presented a larger estimate for ongoing costs. This was due to the application of the standard 10-year appraisal period suggested by the BRF. The appraisal period was revised as a further investigation of data from the Preparer survey and 1-2-1 interviews suggested that five years is a more realistic appraisal period.

# Appendix E: Capital markets effects: additional results

E1. This Appendix reports the results of an analysis of capital markets effects to the assessment of IFRS 18, using five scenarios.

## Inputs to the analysis

- E2. The UKEB estimated market-wide implementation costs (one-off and ongoing costs) for preparers to be approximately 400 million (see paragraph 4.64).
- E3. Due to the fact that exact monetary effects are impossible to predict with accuracy, the estimated market-wide implementation costs are allocated to market-wide effects on cost of capital using five scenarios.

**Table 12: Proportion of estimated market-wide implementation costs assigned to each potential market-wide effect**

Scenario	(1)	(2)	(3)	(4)	(5)
<b>Increase in market capitalisation</b>	25%	50%	75%	37.5%	45%
<b>Decrease in the cost of equity leading to more projects funded through public equity</b>	75%	50%	25%	37.5%	45%
<b>Increase in the outstanding value of corporate bonds</b>	0%	0%	0%	12.5%	5%
<b>Decrease in the cost of debt leading to more projects funded through publicly traded corporate bonds</b>	0%	0%	0%	12.5%	5%

Source: UKEB

- E4. Another important input of the analysis is whether IFRS 18 is expected to deliver direct benefits for users, enhancing their decision-making. This is because users' confidence that the accounting changes brought by IFRS 18 will deliver direct benefits is interpreted as supportive evidence that the new Standard would deliver a cost of capital reduction, in line with the evidence on the topic.

## Results

- E5. The cost of capital analysis for IFRS 18 implementation delivered the following results.

**Table 13: Potential capital effects associated with the adoption of IFRS 18 (basis points)**

Scenario as per Table 7:	(1)	(2)	(3)	(4)	(5)
<b>Increase in market capitalisation</b>	0.36	0.71	1.07	0.54	0.64
<b>Decrease in the cost of equity leading to more projects funded through public equity</b>	6.44	4.29	2.15	3.22	3.86
<b>Increase in the outstanding value of corporate bonds</b>	0.00	0.00	0.00	0.64	0.07
<b>Decrease in the cost of debt leading to more projects funded through publicly traded corporate bonds</b>	0.00	0.00	0.00	0.24	0.10

Source: UKEB calculations based on LSE and Reuters-Eikon data. A basis point is a hundredth of a percentage point.

## Are the figures plausible?

- E6. Stakeholder engagement shows that users have confidence that IFRS 18 requirements will deliver direct benefits, thereby enhancing their decision-making.

This is supportive of IFRS 18 potentially delivering a cost of capital reduction and being associated with an increase in the price of traded securities. Therefore, it is plausible to expect that preparers will reap indirect benefits that will materialise through capital markets in the longer term. This would allow them to recover the implementation costs they will have incurred upon implementing IFRS 18.

- E7. As for the magnitudes, this analysis suggests that that capital markets might plausibly deliver effects that would allow preparers to recover implementation costs in Scenario 4, as noted below:
- a) A **decrease in the cost of equity of 3.2 Bps** is credible considering that:
    - i. The adoption of IFRS in the UK in 2005 was associated with a likely cost of equity reduction of approximately 100 Bps<sup>110</sup>.
    - ii. Recent research commissioned by the AASB shows that adoption of IFRS 15 and IFRS 16 in Australia was associated with a 100-190 Bps reduction in cost of capital<sup>111</sup>.
    - iii. As compared to the baseline cost of capital (11.23%), the required change is small, amounting to 0.3% of baseline cost of capital.
    - iv. The required change is also small as compared to the year-on-year volatility of comparable cost of equity measures as reported in academic research.
  - b) A **decrease in the cost of debt of 0.2 Bps** is credible considering that the adoption of IFRS in 2005 was associated with a likely cost of debt reduction of approximately 30 Bps<sup>112</sup>. As compared to the baseline cost of capital (4.05%), the required change is small, amounting to 0.01% of baseline cost of capital
  - c) The associated increases in the value of traded securities (**increase in market capitalisation** and in **the outstanding value of corporate bonds**) are small as compared to the size of the market and well within the range of day-to-day price volatility of securities listed<sup>113</sup>.
- E8. The analysis does not allow the isolation of effects that may be triggered as a direct result of the implementation of IFRS 18.

<sup>110</sup> Source: UKEB analysis based on desktop research and econometric models using Reuters-Eikon data.

<sup>111</sup> [Hanlon and Truong \(2025\)](#). The cited paper does not rely on causal inference, therefore the results reported must be interpreted as correlations. It is plausible that actual effects could be of a lower magnitude. The UKEB acknowledges that the paper focuses on the adoption of different accounting standards in a different jurisdiction. Florou and Kosi (2015) find that the cost of public debt decreased, on average, by 36 basis points for companies that mandatorily adopted IFRS. The research is a cross-country study that includes the UK. The UK is the largest individual jurisdiction in the sample by number of companies.

<sup>113</sup> The UKEB considered that market volatility may be attributed to a variety of causes that have nothing to do with IFRS. The comparison with market volatility is to sense-check that the expected change is small as compared with (and surely not larger than) the physiological fluctuations in market prices.



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