HM Treasury

IFRS 18 Exposure Draft

July 2026

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ISBN: 978-1-918417-76-0

PU: 3667

This publication is available at: www.gov.uk/official-documents.

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Contents

Chapter 1 - Introduction

1.1 IFRS 18 Disclosure and Presentation in financial statements was adopted for use in the UK on 10th December 2025 and is effective for accounting periods commencing on or after 1 January 2027 in the private sector. Whilst this standard replaces IAS 1 Presentation of financial statements, it only makes changes in three areas.

1.2 Under the Government Resources and Accounts Act 2000, the Treasury issues directions with a view to ensuring that resource accounts conform to generally accepted accounting practice subject to such adaptations as are necessary in the context of departmental accounts.

1.3 HM Treasury has published this Exposure Draft of proposed amendments to chapter 8 of the Government Financial Reporting Manual (FReM) as part of the ongoing work to ensure the FReM reflects the latest developments in financial reporting. Only one new adaptation, in relation to management-defined performance measures, is proposed compared to existing adaptations to IAS 1.

1.4 The proposed approach to the implementation of IFRS 18 is published for comment only. The proposals may be modified following the consultation process before being formally presented to the Financial Reporting Advisory Board (FRAB). Final proposals approved by the FRAB will be published as amendments to the FReM.

1.5 There are other references in the FReM to IAS 1, these will be updated at the time of updating the FReM ahead of IFRS 18 implementation. This includes chapter 7 of the FReM, including 7.2.2.

Structure of Exposure Draft

1.6 The Exposure Draft provides an overview of the new standard and the proposed adaptations and interpretations to be included in the FReM for the UK public sector. This Exposure Draft also explains the ways in which IFRS 18 differs from IAS 1 and asks if this raises any practical challenges for which public sector application guidance from HM Treasury may be helpful.

1.7 This consultation process does not substitute for due process by other relevant authorities, but rather seeks to expedite the identification of issues for consideration.

Invitation to comment

1.8 HM Treasury invites comments on the proposed changes that will be reflected in the FReM. Responses to the questions set out in Chapter 2 would be particularly welcomed. Comments are most helpful if they:

- Respond to the question as stated.

- Indicate the specific paragraph or paragraphs to which they relate.
- Contain a clear rationale.
- Describe any alternatives HM Treasury should consider.

1.9 Comments on this Exposure Draft should be submitted in writing by Friday 11th September 2026. Respondents are asked to send their comments electronically to **Resource.Accounts@hmtreasury.gov.uk**.

1.10 Before responding to the consultation HM Treasury strongly advise respondents to read Chapter 3 onwards which may form the basis of future IFRS 18 application guidance.

Chapter 2 - Questions

Question 1: Do you agree that, other than the proposed removal of the existing FReM interpretation relating to ‘true and fair’ and ‘presents fairly/fair presentation’, the remaining existing IAS 1 interpretations and adaptations are still required and should be mapped to IFRS 18 or other relevant accounting standards? If not, please explain your response. [Chapter 3]

Question 2: Do you agree with the proposal to remove the existing FReM interpretation in relation to ‘true and fair’ and ‘presents fairly/fair presentation’? If not, please explain your response. [Chapter 3]

Question 3: Do you agree with the proposed new FReM adaptation which clarifies that measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures for the purposes of IFRS 18? If not, please explain your response. [Chapter 3]

Question 4: Do you agree that no additional FReM interpretation is required in relation to the naming of totals and sub-totals (for example, the use of "net income/expenditure" rather than "profit/loss"), given the flexibility already provided within IFRS 18? If not, please explain your response. [Chapter 3 & Chapter 5]

Question 5: Do you foresee any practical challenges in applying the IFRS 18 categorisation requirements for income and expenses? Please provide details of any specific issues or areas where you think additional guidance may be required. [Chapter 5]

Question 6: Do you foresee any practical challenges in identifying or applying the IFRS 18 requirements for specified main business activities? Please provide details of any issues identified and suggestions for how these might be addressed. [Chapter 6]

Question 7: Do you foresee any practical challenges in identifying or applying the IFRS 18 requirements for management-defined performance measures? Please provide details of any issues identified and suggestions for how these might be addressed. [Chapter 7]

Question 8: Is the scope and intent of the proposed new adaptation concerning measures related to budgets and Estimates clear and appropriate? If not, why not, and what alternative would you suggest? [Chapter 7]

Question 9: Do you foresee any practical challenges in applying the aggregation and disaggregation requirements of IFRS 18? Please provide details of any specific issues or examples, and suggest how these might be addressed. [Chapter 8]

Question 10: Do you foresee any practical challenges in applying the labelling and description requirements of IFRS 18? Please provide details of any specific issues or examples, and suggest how these might be addressed. [Chapter 8]

Question 11: Do you agree with the proposed date of initial application and transition dates for the central government implementation of IFRS 18? If so, why? If not, why not and what alternatives would you propose? [Chapter 10]

Question 12: Do you have any comments on the impacts IFRS 18 will have on consolidation (either at the individual reporting entity level or Whole of Government Accounts level)? [Chapter 11]

Question 13: Are there any areas in Chapters 3-12 (which may form the basis of application guidance) which require further clarification? Please provide details of any specific issues or examples, and suggest how these might be addressed.

Question 14: Are there any other areas not covered that you would like to comment on?

Chapter 3 - Executive Summary

IFRS 18 Presentation and Disclosure in Financial Statements

3.1 IFRS 18 Presentation and Disclosure in Financial Statements (the Standard) is being considered by HM Treasury for inclusion in the Government Financial Reporting Manual (FReM) from 1 April 2028. Consistent with typical FReM practice, implementation is proposed with a one-year lag relative to the private sector; further detail is set out in Section J.

3.2 IFRS 18 (forming part of UK-adopted IFRS from 10th December 2025) sets out overall requirements for the presentation and disclosure in financial statements. It requires an entity to present a complete set of financial statements at least annually, with comparative amounts for the preceding year (including comparative amounts in the notes). It replaces IAS 1 Presentation of Financial Statements.

3.3 The IASB did not reconsider all aspects of IAS 1 when developing IFRS 18, but instead focused on the statement of profit or loss. The IASB retained most of IAS 1 in IFRS 18 and moved some paragraphs from IAS 1 to IAS 8 Basis of Preparation of Financial Statements and IFRS 7 Financial Instruments: Disclosures.

3.4 References to the statement of profit or loss throughout this Exposure Draft should be read as also referring to the Statement of Comprehensive Net Expenditure, as appropriate in the central government context.

3.5 Under IFRS 18, entities are required to classify income and expenses included in the statement of profit or loss in one of five categories (operating, investing, financing, income taxes, discontinued operations). It then requires entities to present two new defined subtotals in the statement of profit or loss, operating profit and profit before financing and income taxes. The Standard also requires entities to disclose management-defined performance measures which are subtotals of income and expenses not specified by IFRS Accounting Standards that are used in public communications to communicate management's view of an aspect of a company's financial performance. Finally, IFRS 18 adds new principles for aggregation and disaggregation of items.

3.6 We have included further details on the main changes arising from IFRS 18 implementation in Chapters 5-8. Chapter 5 covers categorisation of income and expenses. Chapter 6 covers rules around specified main business activities. Chapter 7 covers new requirements for management-defined performance measures. Chapter 8 covers other changes.

Proposed FReM Interpretation and adaptations

IFRS 18, as adapted and interpreted by the FReM, will be effective from 1 April 2028. HM Treasury proposes to interpret and adapt IFRS 18 in the following ways, as set out in FReM Chapter 8.

<u>Existing FReM interpretations and adaptions to be retained</u>

The following interpretations relate to paragraphs of IAS 1 which are being moved to IFRS 18.

- EXISTING IAS 1 interpretation mapped to IFRS 18 - In addition to naming the legislative authority for producing the accounts, the notes to the accounts shall disclose the basis of preparation of the financial statements as being in accordance with the FReM. (IFRS 18 para 113)
- EXISTING IAS 1 interpretation mapped to IFRS 18 - IFRS 18 requires entities to prepare a Statement of Financial Performance. Departments, NDPBs and Trading Funds should continue to follow the guidance in the FReM. Departments and NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading Funds shall prepare a Statement of Comprehensive Net Income. (IFRS 18 para 10)
- EXISTING IAS 1 interpretation mapped to IFRS 18 - The financing of public sector entities is ultimately tax-based and an IFRS 18-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority. (IFRS 18 paras 126-129)
- EXISTING IAS 1 interpretation mapped to IFRS 18 - The flexibility provided in IFRS 18 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis (IFRS 18 para 96) is withdrawn.
- EXISTING IAS 1 interpretation mapped to IFRS 18 – The IFRS 18 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case-by-case basis. Additionally, the Statement of Changes in Taxpayers' Equity for a departmental group shall include columns for the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs). (IFRS 18 para 31)

The following interpretation relates to paragraphs of IAS 1 which are being moved to IAS 8 - Basis of Preparation of Financial Statements as part of the implementation of IFRS 18.

- EXISTING - Going concern is interpreted for the public sector context (IAS 8 paras 6K, 6L):

  for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up,

  Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed inappropriate, and

  Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements

The following adaptation relates to paragraphs of IAS 1 which are being moved to IAS 8 - Basis of Preparation of Financial Statements as part of the implementation of IFRS 18.

- EXISTING IAS 1 adaptation mapped to IFRS 18 - Where an entity applies merger accounting after a machinery of government (MoG) change and:

a. makes no material retrospective accounting policy alignment adjustments or retrospective changes to any SoFP balances (regardless of whether the adjustments relate to the MoG change); and

b. corrects no material prior period errors to the SoFP (regardless of whether the errors relate to the MoG change)

then a SoFP as at the beginning of the previous reporting period is not required. (IFRS 18 para 37).

<u>Existing FReM interpretations and adaptions to be removed</u>

The following interpretation relates to paragraphs of IAS 1 which are being moved to IAS 8 - Basis of Preparation of Financial Statements as part of the implementation of IFRS 18. HM Treasury proposes to remove the interpretation.

- EXISTING - References to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006.

This interpretation was originally included in the FReM to clarify that references in IAS 1 to “fair presentation” and “present fairly” should be read as equivalent to the UK legal requirement to give a “true and fair view”. However, the Financial Reporting and Advisory Board feel that the equivalence is well understood and, given that the FReM explicitly requires that accounts should present a 'true and fair' view, that this interpretation is not required. HM Treasury therefore proposes to remove this interpretation. The underlying obligation for accounts to present a true and fair view remains unchanged.

<u>New FReM adaptation proposed</u>

HM Treasury proposes one new adaptation of IFRS 18 to be added to the table of adaptations/interpretations in chapter 8 of the FReM.

IFRS 18 introduces new disclosure requirements for management-defined performance measures. For the purposes of IFRS 18, an MPM is defined as a subtotal of income and expenses that (a) an entity uses in public communication outside financial statements; b) an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and, c) is not listed in paragraph 118, or specifically required to be presented or disclosed by IFRS accounting standards. In the public sector, measures relating to budgets and Estimates could arguably be considered MPMs according to this definition.

The FReM already sets out specific reporting requirements around budgets and Estimates to be included in the Statement of Outturn against Parliamentary Supply (SoPS). It also requires a reconciliation to the Statement of Comprehensive Net Expenditure for bodies required to prepare a SoPS. This reporting provides users with sufficient transparency around measures relating to budgets and Estimates. Further detail on the rationale for this proposed adaptation is set out in Chapter 7.

HM Treasury therefore proposes one new adaptation of IFRS 18: 'Measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures for the purposes of IFRS 18'.

Note on this Exposure Draft

This Exposure Draft sets out the proposed basis for the central government adaptations and interpretations of IFRS 18 and Chapters 3-12 may form the basis of application guidance to be published at a later date. It does not seek to duplicate guidance already included in IFRS 18. Entities will continue to be required to exercise judgement when applying IFRS 18.

Question 1: Do you agree that, other than the proposed removal of the existing FReM interpretation relating to ‘true and fair’ and ‘presents fairly/fair presentation’, the remaining existing IAS 1 interpretations and adaptations are still required and should be mapped to IFRS 18 or other relevant accounting standards? If not, please explain your response.
Question 2: Do you agree with the proposal to remove the existing FReM interpretation in relation to ‘true and fair’ and ‘presents fairly/fair presentation’? If not, please explain your response.
Question 3: Do you agree with the proposed new FReM adaptation which clarifies that measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures for the purposes of IFRS 18? If not, please explain your response.
Question 4: Do you agree that no additional FReM interpretation is required in relation to the naming of totals and sub-totals (for example, the use of "net income/expenditure" rather than "profit/loss"), given the flexibility already provided within IFRS 18? If not, please explain your response.

Chapter 4 - Introduction and purpose

Introducing IFRS 18

4.1 International Financial Reporting Standard (IFRS) 18 Presentation and Disclosure in Financial Statements (the Standard) is the new accounting standard issued by the International Accounting Standards Board (IASB) that replaces IAS 1 Presentation of Financial Statements. IFRS 18 applies for accounting periods beginning on or after 1 January 2027 in the private sector. HM Treasury is proposing that Central government bodies should apply IFRS 18 for the first time in the financial year commencing 1 April 2028.

4.2 IFRS 18 sets out requirements for the presentation and disclosure of information in financial statements, including the structure of the statement of financial performance, the use of specified categories and subtotals, requirements for aggregation and disaggregation of information, and disclosures relating to management-defined performance measures. IFRS 18 does not change the recognition or measurement of income, expenditure, assets or liabilities, which continue to be determined by other IFRS Accounting Standards.

4.3 This exposure draft is intended to support those applying IFRS 18 within the UK central government context. It describes the nature and purpose of the Standard and explains how it is applied within the FReM. It includes guidance on FReM interpretations and adaptations, transition arrangements, the implications for the Whole of Government Accounts, and the impact on budgets and Estimates.

The purpose of IFRS 18

4.4 IAS 1, which IFRS 18 replaces, established general requirements for the presentation of financial statements but allowed a degree of flexibility that led to differences in how entities presented their financial performance. In particular, there was variation in the structure of the statement of profit or loss and the use of subtotals.

4.5 IFRS 18 introduces a more structured and consistent approach to the presentation of financial performance. It requires entities to classify income and expenses into defined categories and to present specified subtotals, with the aim of improving the comparability, transparency and usefulness of financial information for users. IFRS 18 also introduces enhanced requirements for the disaggregation of information and for disclosures relating to management-defined performance measures.

4.6 By improving the structure and clarity of financial statements, IFRS 18 supports the objectives of general purpose financial reporting as set out in the IASB's Conceptual Framework. The Standard aims to provide users, with more comparable and understandable information about an entity's financial performance, without changing the underlying financial results reported.

Chapter 5 - Categorisation of income and expenses

Overview of categorisation

5.1 IFRS 18 introduces a structured approach to the presentation of financial performance by requiring entities to classify income and expenses into defined categories within the statement of profit or loss. A helpful illustration of categorisation can be found at IFRS.org (slides 5-7).

5.2 Unless the entity has a "specified main business activity", for which see chapter F, and with the exception of foreign exchange differences and derivative gains/losses (see 5.4) income and expenses are required to be classified into the following categories:

- Operating category – is the default or residual category i.e. it is for income and expenses that do not fall into one of the other categories. For most central government bodies, this will include the majority of income and expenditure arising from the delivery of public services. See Paragraph 52 in IFRS 18.
- Investing category – is for specified income and expenses from assets that generate a return individually and largely independently of other resources held by the entity and from cash and cash equivalents, associates, joint ventures and any unconsolidated subsidiaries. This includes, for example, income from, and gains/loss on remeasurement or disposals of financial assets (other than associates etc). See paragraphs 53-54 in IFRS 18.
- Financing category – this is principally for income and expenses arising from liabilities that involve the raising of finance. This includes, for example, interest expense on borrowings and, where relevant, remeasurement of such liabilities. See paragraphs 59-61 in IFRS 18. In addition, as set out in B53-B55 it is also for: interest recognised on trade payables, interest recognised on a lease liability etc. Entities should ensure they review this part of the standard in detail ahead of implementation. Furthermore, as set out in paragraphs 63-64, some specific items such as insurance finance income and expenses, must or may be required to be excluded from financing and should be classified as operating.
- Income taxes category – is for income taxes as defined in IAS 12. For most central government entities, this category is expected to be limited or not applicable. See paragraph 67 in IFRS 18.
- Discontinued operations category – is for income and expenses relating to discontinued operations, as defined in IFRS 5

Non-current Assets Held for Sale and Discontinued Operations. See paragraph 68 in IFRS 18.

5.3 The classification of income and expenses into these categories may require judgement, particularly in determining whether transactions relate to operating, investing or financing activities.

5.4 There are specific rules in IFRS 18 for the categorisation of both derivatives (B70 – B76) and foreign exchange differences (B65-B69), entities affected by these should ensure they review the relevant IFRS 18 paragraphs in detail.

Question 5: Do you foresee any practical challenges in applying the IFRS 18 categorisation requirements for income and expenses? Please provide details of any specific issues or examples of areas where you think additional guidance may be required.

Totals, subtotals and FReM interpretation

5.5 IFRS 18 (Paragraphs 69-74) requires entities to present specified totals and subtotals within the statement of profit or loss, as follows:

- Operating profit or loss (paragraph 70), being the sub-total of everything in the operating category.
- Profit or loss before financing and income tax (paragraph 71), being the sub-total of operating profit or loss and everything in the investing category.
- Profit or loss (paragraph 72), being the total of all five categories and representing the overall financial performance for the period.

5.6 These subtotals are intended to improve comparability and transparency by providing a consistent structure for analysing financial performance across entities. The subtotals are derived from the categories (see 5.2) and must be presented in accordance with IFRS 18.

5.7 IFRS 18 does not change the underlying financial results reported by an entity. The totals and subtotals reflect different presentations of income and expenses, rather than changes to recognition or measurement.

5.8 For the purposes of central government financial reporting, entities should apply the presentation requirements of IFRS 18, noting the flexibility (paragraphs 6 and 11) provided in the standard when determining appropriate descriptions of totals and subtotals. In Particular, paragraph 11 states 'although this Standard uses terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to label the totals, subtotals and line items required by this Standard as long as they are labelled in a way that faithfully represents the characteristics of the items'.

5.9 The illustrative financial statements accompanying the FReM for 2028–29 will apply the requirements of IFRS 18 (incorporating any adaptations or interpretations set out in the FReM). Illustrative statements are provided for guidance only.

5.10 IFRS 18 (paragraphs 78-79) requires entities to present an analysis of operating expenses either by nature or by function, or using a mixed basis. For central government entities, expenses are typically presented by nature, for example through separate line items for staff costs, depreciation etc. This approach remains permissible under IFRS 18.

Chapter 6 - Specified main business activities

Overview

6.1 IFRS 18 requires entities to classify (pre-tax, non-discontinued) income and expenses into operating, investing and financing categories, for which the general rules are described in Section E. However, the Standard introduces specific requirements for entities with specified main business activities.

6.2 These requirements apply where an entity has a main business activity of investing in assets or of providing financing to customers as a central part of its operations. In such cases, the categorisation of certain income and expenses differs from the general categorisation approach.

When specified main business activities apply

6.3 Certain income and expenses that would otherwise be classified within the investing category are instead to be included within the operating category where they relate to a "specified main business activity". For example, investment funds classify investment returns in operating. Similarly, income and expenses that would otherwise be classified within the financing category are included within the operating category where providing finance is a main business activity. For example, banks will categorise net interest margin in operating.

6.4 An entity is considered to have a specified main business activity where:

- investing in particular types of assets; or
- providing financing to customers

6.5 If such activity is an entity's only activity, then it is straightforward to conclude that it has a specified main business activity and, thus, applies the modified categorisation rules. When such an activity is one of two or more activities of an entity, then the matter requires judgement and should be based on the nature of the entity's activities, how it generates income, and how its performance is communicated to users of the financial statements. Further detail can be found in paragraphs 55-58, 65-66, B30-B41.

6.6 For most central government entities, income and expenditure arise from the delivery of public services and will therefore be classified within the operating category. Specified main business activities are expected to apply only to a small number of entities that apply the FReM.

6.7 Entities should clearly explain any significant judgements made in determining whether they have specified main business activities and the resulting impact on the presentation of financial performance.

6.8 Assessment of main business activities applies at a reporting entity level. Thus, whether an activity is a specified main business activity at a group level may differ from individual entity level and therefore they may classify income and expenses differently. Additional consolidation adjustments may be required for the group income statement.

Question 6: Do you foresee any practical challenges in identifying or applying the IFRS 18 requirements for specified main business activities? Please provide details of any issues identified and suggestions for how these might be addressed.

Chapter 7 - Management-defined performance measures

When the requirements apply

7.1 IFRS 18 introduces new requirements for the disclosure of management-defined performance measures (MPMs). These requirements are intended to improve the transparency and comparability of measures used by management to communicate financial performance.

7.2 The requirements for MPMs apply where an entity presents measures in public communications outside the financial statements. For the purposes of IFRS 18, public communications include information published as part of the annual report and accounts or other publicly available reports that accompany the financial statements.

7.3 Management-defined performance measures are subtotals of income and expenses that:

- an entity uses in public communications outside financial statements;
- an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and
- is not listed in paragraph 118, or specifically required to be presented or disclosed by IFRS Accounting Standards.

7.4 In the public sector, measures relating to budgets and Estimates could arguably be considered MPMs. The FReM already sets out specific reporting requirements around budgets and Estimates to be included in the Statement of Outturn against Parliamentary Supply (SoPS). It also requires a reconciliation to the Statement of Comprehensive Net Expenditure for bodies required to prepare a SoPS. This reporting provides users with sufficient transparency around measures relating to budgets and Estimates.

7.5 HM Treasury therefore proposes one new adaptation of IFRS 18: 'Measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures for the purposes of IFRS 18'.

7.6 This adaptation will apply to all FReM-reporting entities. HM Treasury recognises that not all bodies that report under the FReM prepare Statements of Parliamentary Supply, however HM Treasury is satisfied that there is sufficient transparency around budgets and

Estimates in existing FReM requirements and the reporting provided at group level.

7.7 The adaptation will cover measures derived from, or used to monitor performance against, all Parliamentary and Budgetary controls including headline budget aggregates (such as DEL and AME), Estimate-related controls, and other formal spending controls or policy ringfences.

7.8 There is no intention to change existing reporting requirements within the Statements of Parliamentary Supply.

Required disclosures

7.9 Where an entity identifies an MPM, IFRS 18 requires that specific disclosures are provided in the financial statements.

7.10 These disclosures must be presented in a single note and include:

- a reconciliation of the MPM to the most directly comparable subtotal defined by IFRS 18;
- an explanation of why the measure is used, including how it provides useful information about financial performance; and
- a description of how the measure is calculated, including any significant judgements or assumptions applied.

7.11 These requirements are intended to ensure that users can understand how MPMs relate to IFRS-based measures and how they are used by management in assessing performance.

7.12 MPMs are not presented within the primary financial statements but are disclosed in the notes. Entities should ensure that the presentation of MPM disclosures is clear, consistent and does not obscure IFRS-defined measures.

7.13 Where no measures meet the definition of an MPM, no additional disclosures are required under this section.

Question 7: Do you foresee any practical challenges in identifying or applying the IFRS 18 requirements for management-defined performance measures? Please provide details of any issues identified and suggestions for how these might be addressed.
Question 8: Is the scope and intent of the proposed new adaptation concerning measures related to budgets and Estimates clear and appropriate? If not, why not, and what alternative would you suggest?

Chapter 8 - Other changes

Aggregation & disaggregation

8.1 IFRS 18 sets principles for the degree to which information should be broken down (disaggregated) or combined (aggregated) in order that information be presented in a way that provides a useful and understandable summary of financial performance and position, while ensuring that material information is not obscured.

8.2 In summary, items should be aggregated where they share similar characteristics and can be presented meaningfully as a single line item or disclosure and otherwise be disaggregated, in both cases so long as doing so would not obscure material differences or reduce the usefulness of the information presented.

8.3 IFRS 18 places greater emphasis on providing sufficient disaggregation in the notes to the accounts to explain material line items presented in the primary financial statements.

Labelling and descriptions

8.4 IFRS 18 also sets principles on the labelling and description of line items within financial statements. Labels should be clear, meaningful and faithfully represent the underlying transactions or balances.

8.5 Entities should ensure that similar items are labelled consistently across the financial statements and notes; and descriptions provide sufficient clarity to enable users to understand the nature of the items presented.

Changes to other statements

8.6 IFRS 18 includes consequential amendments to IAS 7 Statement of Cash Flows. In applying the indirect method, entities are required to use operating profit or loss as the starting point for presenting cash flows from operating activities. In addition, IFRS 18 removes the options to classify interest and dividend cash flows by aligning classification with categories.

8.7 IFRS 18 introduces a requirement to present goodwill as a separate line item in the statement of financial position. This is intended to improve the transparency of financial statements by clearly distinguishing goodwill from other intangible assets.

Question 9: Do you foresee any practical challenges in applying the aggregation and disaggregation requirements of IFRS 18? Please provide details of any specific issues or examples, and suggest how these might be addressed.

Question 10: Do you foresee any practical challenges in applying the labelling and description requirements of IFRS 18? Please provide details of any specific issues or examples, and suggest how these might be addressed.

Chapter 9 - Applying IFRS 18

9.1 The IFRS Foundation has published a range of supporting materials to assist entities in applying IFRS 18 Presentation and Disclosure in Financial Statements. This includes illustrative examples. These materials are available via the IFRS Foundation website.

9.2 Although IFRS 18 is primarily a presentation and disclosure standard, implementation may require changes to systems, processes and reporting structures. In particular, entities may need to review how financial information is captured and reported to support the new categorisation and presentation requirements.

9.3 Entities should consider, ahead of implementation:

- whether existing charts of accounts and accounting structures support the classification of income and expenditure into IFRS 18 categories;
- whether updates to financial systems and reporting tools are required; and
- what changes may be needed to internal reporting and data collection processes to support the preparation of IFRS 18-compliant financial statements.

9.4 Early consideration of these matters will help ensure a smooth transition to IFRS 18, particularly where system or process changes are required.

9.5 Entities should apply the Standard directly, using relevant IFRS Foundation materials where appropriate. (The FReM does not provide detailed application guidance on IFRS 18 beyond the interpretations and adaptations set out in Chapter 8.)

9.6 To the extent that judgement is required in applying IFRS 18, entities are expected to exercise judgement in a manner that is consistent, transparent and appropriate to the central government context.

Chapter 10 - Transitional Arrangements

Transition guidance

10.1 There are several considerations to evaluate as part of the transition to IFRS 18, including the transition arrangements relating to retrospective application and the practical implications for implementation across the public sector.

10.2 IFRS 18 is effective in the private sector for accounting periods beginning on or after 1st January 2027 (i.e. 2027–28 for entities with a March year-end).

10.3 New standards are typically implemented in the public sector in the reporting period following private sector implementation. This allows time for any public sector adaptations or interpretations to be considered and communicated to preparers. HM Treasury therefore proposes that IFRS 18 will be introduced for FReM following entities from 2028-29 onwards.

10.4 Early adoption may be permitted subject to approval from HM Treasury as the relevant authority. Entities seeking to early adopt will need to consider and manage any associated implementation risks. In particular, Whole of Government Accounts (WGA) data collection processes and systems are not expected to be updated until 2028-29. Entities that early adopt must therefore ensure that they remain able to comply with WGA reporting requirements and provide information on a basis consistent with WGA consolidation instructions where required.

10.5 Entities should be aware of the following terms, as they are regularly used in the Standard and this section of the application guidance:

- The **date of initial application** is the beginning of the annual reporting period in which IFRS 18 is first applied. In central government **the date of initial application is 1 April 2028.**
- The **transition date** is the beginning of the annual reporting period immediately preceding the date of initial application. In central government **the transition date is 1 April 2027.**

Question 11: Do you agree with the proposed date of initial application and transition dates for the central government implementation of IFRS 18? If so, why? If not, why not and what alternatives do you propose?

Approach to transition

10.6 IFRS 18 requires entities to apply IFRS 18 retrospectively in accordance with IAS 8. To apply the Standard retrospectively, at the date of initial application (1 April 2028) entities need to:

- disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:

  the restated amounts presented applying IFRS 18; and

  the amounts previously presented applying IAS 1

10.7 As IFRS 18 introduces changes to presentation and disclosure only, and does not affect the recognition or measurement of income, expenditure, assets or liabilities, transition is expected to be limited to the re-presentation of comparative information, including the mapping of existing income and expenditure line items to the new categories and subtotals required by IFRS 18.

10.8 IFRS 18 does not require comparative disclosures for management-defined performance measures and, accordingly, comparative information for such disclosures is not required in the first year of application.

Chapter 11 - Whole of Government Accounts

11.1 Implementation of IFRS 18 is not expected to materially affect the underlying measurement of assets, liabilities, income and expenditure within the Whole of Government Accounts (WGA) boundary. The Standard is limited to presentation and disclosure and therefore does not affect the underlying financial position or performance of entities within the WGA. However, implementation of IFRS 18 is expected to present significant challenges to the preparation of the WGA, and therefore on the nature and detail of information which needs to be collected and collated.

11.2 Significant operational changes to WGA data collection and reporting processes are likely to be required to reflect the revised presentation of income and expenditure introduced by IFRS 18. This is likely to include updates to WGA data collection templates, Standard Chart of Accounts, mappings, match relationships (which enable intra-government amounts to be eliminated), and validation checks to support consistent aggregation, disaggregation and classification across reporting entities. Additional narrative explanation would also be required in the year of transition to support users' understanding of changes in presentation. It may be challenging to present prior year figures on a fully comparable basis in the newly required format, reducing the scope for the reader to compare year on year WGA amounts.

11.3 Currently it is anticipated that IFRS 18 with be implemented for local government for reporting periods on or after 1 January 2028, consistent with the implementation date proposed for central government by HM Treasury. Aligning implementation dates should minimise any potential disruption to the Whole of Government Accounts consolidation.

Question 12: Do you have any comments on the impacts IFRS 18 will have on consolidation (either at the individual reporting entity level or Whole of Government Accounts level)? Please explain any comments, including providing alternatives HM Treasury should consider.

Chapter 12 - Budgets and Estimates

12.1 IFRS 18 is a presentation and disclosure standard only. There are no direct consequences for budgets or estimates arising from IFRS 18 implementation via the FReM

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This document can be downloaded from www.gov.uk

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