Financial Reporting Advisory Board

IFRS 18 – Exposure Draft

Issue:	An update on the proposed adoption of IFRS 18 – Presentation and Disclosure in Financial Statements in central government.
Impact on guidance:	HM Treasury has drafted an IFRS 18 Exposure Draft which will form the basis of future application guidance. Any interpretations and/or adaptations will be brought into the Government Financial Reporting Manual (FReM).
IAS/IFRS adaptation or interpretation for the public sector context?	The Exposure draft outlines that HM Treasury expects one new additional interpretation (compared to existing IAS 1 interpretations and adaptations) to fit IFRS 18 effectively to central government conditions.
Impact on WGA?	IFRS 18 will impact on WGA when implemented, the detail is still being worked through internally.
IPSAS compliant?	IPSASB are also using IFRS 18 as the basis for their new presentation standard, whilst continuing to use surplus and deficit terminology they are proposing to not apply IFRS 18 MPM definitions and requirements.
Alignment with National Accounts	No impact, presentation changes only.
Impact on budgetary regime and Estimates?	No impact, presentation changes only.
Recommendation:	The Board is asked to approve the exposure draft and agree to opening this to consultation over the summer. There are also 4 questions (A-D) outlined in this paper for which we would welcome views from the Board.
Timing:	HM Treasury is working on the assumption of IFRS 18 implementation in the FReM from 2028-29.

DETAIL

Background

1. The International Accounting Standards Board (IASB) has issued IFRS 18 Presentation and Disclosure in Financial Statements (the Standard), which replaces IAS 1 Presentation of Financial Statements. IFRS 18 has been adopted by the UK Endorsement Board.
2. HM Treasury are proposing implementation of IFRS 18 in the FReM in the 2028-29 financial year (one year after the private sector in the UK).
3. This paper presents the exposure draft (ED) for IFRS 18 which may form future application guidance for the Standard. The ED has been developed in conjunction with the IFRS 18 Technical Working Group (TWG) and has been updated for comments from the TWG.
4. The ED sets out the anticipated adaptations and interpretations for IFRS 18, most of which are existing IAS 1 adaptations and interpretations which have been mapped to

IFRS 18 or other standards as appropriate, there is one new interpretation proposed in relation to terminology, to allow bodies to use net expenditure or net income instead of IFRS 18 profit and loss terminology as part of required totals and sub-totals.

5. The ED can be found separately as an **Annex**.
6. The next steps on the IFRS 18 ED are:
   - The ED to be updated for comments from FRAB.
   - The ED to be published for consultation over the summer.
   - HM Treasury to review responses to the Exposure Draft and report back to FRAB, including any recommendations for changes in approach
   - FReM to be updated in line with decisions on adoption of IFRS 18. Application guidance to be issued should comments on the Exposure Draft indicate that guidance is needed.
7. There are four key questions (**A-D**) outlined in this paper below for which we would welcome views from the Board.

A. Timing of implementation (2028–29)

Background

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

Consistent with standard FReM practice, HM Treasury has proposed a one-year implementation lag, with initial application from 1 April 2028. Historically, such a lag has been applied to allow time to:

- observe application by private sector and anticipate potential issues for public sector;
- develop guidance where required; and
- allow entities time to update systems and processes.

HM Treasury position

In this case, IFRS 18 is a presentation and disclosure standard and does not change recognition or measurement; however, implementation will require changes to data collection, mapping and validation processes.

Changes are also underway to move central government bodies into “clusters” for financial reporting, meaning groups of entities will report using standardised account code structures. This will require additional work to align and map income and expenditure categories consistently across entities in line with IFRS 18.

There are also specific considerations for the Whole of Government Accounts (WGA), where changes to templates, mappings and consolidation processes will need to be developed and tested ahead of implementation.

IFRS 18 requires retrospective application, so implementation in 2027–28 would necessitate the restatement of 2026–27 comparatives. HM Treasury therefore consider an implementation date of 2028-29 (one year after the private sector) to be appropriate. This is consistent with the high-level workplan for IFRS 18 agreed at the November 2024 FRAB meeting.

Does FRAB agree with the proposed implementation date of 1 April 2028 for bodies that follow the FReM?

B. New FReM interpretation (profit/loss vs net expenditure/net income)

Background

IFRS 18 introduces defined totals and subtotals framed in terms of "profit" or "loss". In the central government context, financial performance is typically presented using "net income" or "net expenditure", for example in the Statement of Comprehensive Net Expenditure (SoCNE).

Under IAS 1, terminology (including whether to use "profit or loss") is not prescribed. IAS 1 (paragraph 8) explicitly permits entities to use alternative terms, such as "net income", provided the meaning is clear. The FReM has therefore not included an explicit interpretation of this wording, with the issue instead addressed through the overall presentation framework.

HM Treasury position

HM Treasury proposes to include a single new interpretation to clarify that references to "profit" or "loss" in IFRS 18 should be read as applying equally to "net income" or "net expenditure" in the public sector context.

This reflects established practice and is intended to avoid FReM entities applying terminology that may be misleading in a public sector context, this was raised as a concern by members of the IFRS 18 technical working group. It also preserves the flexibility that exists under IAS 1 by making clear that entities can exercise judgement in determining whether "profit and loss" or "net income and net expenditure" terminology is more appropriate.

The proposed interpretation would not prevent entities from using 'profit' and 'loss' terminology where it is considered appropriate, but would make explicit that entities can use their judgement to decide what terminology is most appropriate.

Does FRAB agree that anew interpretation should be introduced in the FReM to make explicit that entities can choose to use 'net income and net expenditure' rather than 'profit and loss' terminology where appropriate when applying IFRS 18?

C. Existing IAS 1 interpretations and adaptations

Background

The Exposure Draft proposes to carry forward existing IAS 1 interpretations and adaptations, mapping them to IFRS 18 or, where more appropriate, to other standards (for example IAS 8). These interpretations address a range of public sector-specific considerations, including financial statement formats, capital disclosures, and presentation flexibilities. This is necessary because, as part of the introduction of IFRS 18, a number of relevant requirements currently within IAS 1 are being relocated to other standards, requiring corresponding updates to ensure the FReM interpretations remain appropriately aligned.

HM Treasury position

HM Treasury's default position is to maintain continuity in the FReM unless there is a clear rationale for change. Following review of existing IAS 1 adaptations in the FReM, we propose to map these adaptations to relevant standards without any further changes.

Does FRAB agree with the proposed approach of retaining existing IAS 1 interpretations and adaptations and mapping to relevant standards?

D. Management-defined performance measures (MPMs)

Background

IFRS 18 introduces new requirements for the disclosure of management-defined performance measures (MPMs). These are defined as subtotals of income and expenses that:

- are used in public communications outside the financial statements;
- are used to communicate management's view of an aspect of financial performance;

IFRS 18 also specifies that MPMs must be reconciled to the most directly comparable IFRS-defined subtotal and disclosed in a single note.

At the first Technical Working Group meeting in June 2025, members discussed the new requirements in IFRS 18 in relation to MPMs. Members noted that guidance might be required to ensure that these requirements did not create a significant additional reporting burden for central government preparers.

An example of an MPM in the private sector is the use of adjusted operating profit, where entities adjust IFRS-defined subtotals for items they consider non-recurring (for example restructuring costs).

For bodies following the FReM, similar measures could arise where entities present adjusted versions of IFRS-based totals in the SoCNE (for example, adjusted net expenditure). These would meet the definition of MPMs and require disclosure under IFRS 18.

In practice, such measures are more likely to arise in trading funds or other more commercially oriented bodies, where there is a greater focus on underlying financial performance, rather than across the central government sector as a whole.

In the central government context, entities frequently present a range of measures alongside IFRS-based financial statements, including those derived from budgets, Estimates, or other Parliamentary reporting frameworks, which are prepared on a different basis.

HM Treasury position

HM Treasury has considered the requirements of IFRS 18 in further detail, in particular paragraphs 117–120 and B113–B129. Paragraph B116 clarifies that certain measures are not MPMs because they are not subtotals of income and expenses, including financial ratios, liquidity measures and non-financial performance measures.

Paragraph B119 describes what qualifies as public communications, public communications include management commentary, press releases and investor presentations. For the purpose of defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications and social media posts.

IFRS 18 includes a rebuttable presumption that subtotals used in public communications represent management-defined performance measures (paragraph 119). However, this presumption can be rebutted where there is reasonable and supportable evidence that the subtotal is used for another purpose (paragraph 120).

In particular, IFRS 18 notes that this may be the case where a subtotal is used to communicate performance under a framework other than IFRS (paragraph B129(b)), or where it is required by law or regulation (paragraph B129(a)).

Relevant extracts from IFRS 18 can be found in Annex B.

HM Treasury considers that this is directly relevant in the central government context. Measures derived from budgets, Estimates and other Parliamentary frameworks are used to communicate performance on a different basis to IFRS and, in many cases, are required as part of statutory reporting to Parliament (for example through the Statement of Parliamentary Supply). As such, these measures would not typically be communicating management's view of financial performance as defined by IFRS 18.

Accordingly, HM Treasury's initial assessment is that many measures—particularly those derived from budgets, Estimates or other Parliamentary frameworks (including those presented under the Consolidated Budgeting Guidance)—are prepared on a different basis to IFRS and do not represent subtotals of IFRS income and expenses. On that basis, such measures would typically fall outside the definition of an MPM.

Requiring reconciliation to IFRS-defined subtotals may therefore not align with the intent of the Standard and may provide limited additional value to users. In practice, Statement of Parliamentary Supply reporting in ARAs already provides a reconciliation of budget outturn to the SoCNE.

HM Treasury therefore considers that a significant proportion of public sector performance measures are likely to fall outside the scope of the IFRS 18 MPM requirements. However, judgement will still be required in specific cases, for example where adjusted IFRS-based subtotals are presented in public communications.

Does FRAB agree with HM Treasury's initial assessment that a significant proportion of central government performance measures fall outside the scope of IFRS 18 MPM requirements, in particular where such measures are used to communicate performance under a framework other than IFRS and/or are required by law or regulation (for example budgets, Estimates and other Parliamentary reporting frameworks)?

If FRAB disagrees and considers that such measures are in scope of the standard, does FRAB agree that these should be scoped out for central government reporting purposes.

Recommendation

Subject to any changes required as a result of discussions regarding the four key questions above, the Board is asked to approve the publication of the Exposure Draft (Annex A) and opening this to consultation over the summer.

HM Treasury

18th June 2026

Annex B – IFRS 18 extracts

Subtotals of income and expenses

B116 A management-defined performance measure is a subtotal of income and expenses. Examples of measures that are not management-defined performance measures because they are not subtotals of income and expenses include:

(a) subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses);

(b) assets, liabilities, equity or combinations of these elements;

(c) financial ratios (for example, return on assets) (see paragraph B117);

(d) measures of liquidity or cash flows (for example, free cash flow); or

(e) non-financial performance measures.

Public communications

B119 A subtotal meets the definition of a management-defined performance measure only if an entity uses it in public communications outside its financial statements. Public communications include management commentary, press releases and investor presentations. For the purpose of defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications and social media posts.

Presumption about communicating management's view

B124 Paragraph 119 states that a subtotal of income and expenses used in public communications outside its financial statements is presumed to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. Applying paragraph 120, an entity is permitted to rebut that presumption if it has reasonable and supportable information available that demonstrates that:

(a) the subtotal does not communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole (see paragraphs B125–B128); and

(b) the entity has a reason for using the subtotal in its public communications other than communicating management's view of an aspect of the financial performance of the entity as a whole (see paragraph B129).

B129 Examples of reasonable and supportable information that demonstrates an entity has a reason for using a subtotal in its public communications other than to communicate to users of its financial statements management's view of an aspect of the financial performance of the entity as a whole are that the subtotal:

(a) is required in a public communication by law or regulation;

(b) communicates performance related to financial statements prepared in accordance with an accounting framework other than IFRS Accounting Standards;

(c) is used in a public communication to satisfy a request from an external party; or

(d) is used in a public communication for the purpose of communicating information other than financial performance.