Financial Reporting Advisory Board

IFRS 18 – Exposure Draft Consultation Outcome

Issue:	To present the outcome of HM Treasury's consultation on the proposed adoption of IFRS 18 in central government and seek the Board's agreement to HM Treasury's proposed response.
Impact on guidance:	HM Treasury has consulted on an IFRS 18 Exposure Draft covering the proposed FReM implementation approach, interpretations and adaptations, and supporting application guidance. Agreed interpretations and adaptations will be incorporated into the FReM, with separate application guidance developed for preparers.
IAS/IFRS adaptation or interpretation for the public sector context?	The Exposure Draft proposes one new adaptation, alongside the mapping of existing IAS 1 interpretations and adaptations to IFRS 18 or other relevant standards, to apply IFRS 18 effectively in the central government context.
Impact on WGA?	IFRS 18 will affect the presentation of WGA and may have operational implications for the consolidation process, including reporting templates, chart of accounts mappings and consolidation adjustments. HM Treasury is working with the WGA team to assess these impacts.
IPSAS compliant?	IPSASB is using IFRS 18 as the basis for its new presentation standard. However, it proposes to retain surplus and deficit terminology and not to apply the IFRS 18 requirements for management-defined performance measures.
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 consider the Exposure Draft consultation outcome and agree HM Treasury's proposed response.
Timing:	HM Treasury is working on the assumption of IFRS 18 implementation in the FReM from 2028-29.

DETAIL

Background

1. Following FRAB 159 in June 2026, HM Treasury made further changes to the IFRS 18 Exposure Draft presented to the Board. Following the Board's agreement, the Exposure Draft was published at the end of July 2026. The consultation closed on 11 September 2026, and HM Treasury has summarised the responses below.
2. The Exposure Draft included 14 key questions; a summary of feedback received on each question can be found in **Annex A**.

IAS 1 Interpretations and adaptations

3. Overall, respondents supported the proposal to map the existing IAS 1 interpretations and adaptations to IFRS 18 or other relevant standards. Respondents also supported removing the existing interpretation relating to “true and fair” and “fair presentation”, agreeing with the Board that the requirement is already evident throughout the FReM.
4. Of respondents expressing a definitive view, 95% (38 of 40) agreed that the existing IAS 1 interpretations and adaptations, other than the interpretation relating to “true and fair” and “fair presentation”, should be retained and mapped to IFRS 18 or other relevant standards.
5. Of respondents expressing a definitive view, 92% (36 of 39) agreed with the proposal to remove the existing FReM interpretation relating to “true and fair” and “fair presentation”.
6. Of respondents expressing a definitive view, 95% (35 of 37) agreed that no additional FReM interpretation is required in relation to the naming of totals and subtotals presented under IFRS 18.
7. There were some areas where respondents felt that the wording of the current interpretations/adaptations could be improved (these are included below in tracked changes).
8. It was noted that the term "financial provision" in the going concern interpretation could be confused with an accounting provision recognised under IAS 37. HM Treasury agrees that "funding" more clearly conveys the intended meaning in the context of public sector budgeting and financing arrangements.
9. It was also noted that the current interpretation stating that entities should normally prepare a SoCNE (other than Trading Funds) does not explicitly refer to Executive Agencies and other ALBs. HM Treasury agrees that the drafting could more clearly articulate the presentation requirements applying to different categories of central government bodies without changing the underlying requirements.

- IAS 1 Interpretation 3
  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~~ funding 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*

- IAS 1 Interpretation 4
  - *IFRS 18 requires entities to prepare a Statement of Financial Performance. Departments, NDPBs, ~~and~~ Trading Funds, Executive Agencies and other*

ALBs should continue to follow the guidance in the FReM. Departments, ~~and~~ NDPBs, Executive Agencies and other ALBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading Funds shall prepare a Statement of Comprehensive Net Income. (IFRS 18 para 10)

Recommendation 1: That FRAB agrees that HM Treasury should proceed with the proposed changes to the IAS 1 interpretations and adaptations set out in the Exposure Draft, subject to the drafting amendments described above.

IFRS 18 implementation and application

10. Respondents broadly supported the proposal to implement IFRS 18 in central government. Of respondents expressing a definitive view, 92% (35 of 38) agreed with the proposed implementation and transition dates.
11. Respondents noted that application of IFRS 18 will require judgement, particularly in allocating income and expenditure to the new categories and in determining how classifications should operate within departmental groups where entities may have different specified main business activities, potentially resulting in similar transactions being presented in different categories within entity-level financial statements. HM Treasury acknowledges these challenges but notes that they arise from the requirements of IFRS 18 itself and are not unique to the public sector. HM Treasury therefore does not consider that a specific public sector adaptation is required. Further detail on the issues raised by respondents is set out in Annex A.
12. Respondents identified a number of practical application challenges relating to management-defined performance measures, aggregation and disaggregation requirements, and the labelling and description of information presented in the financial statements. HM Treasury considers these to be implementation matters arising from IFRS 18 itself rather than issues requiring FReM interpretations or adaptations. However, HM Treasury agrees that guidance and examples would assist preparers and intends to develop and publish application guidance in 2027, drawing on the Exposure Draft and consultation feedback.
13. Some respondents requested the option of early adoption; per the Exposure Draft early adoption is permitted subject to approval from HM Treasury. HM Treasury remains content with this approach.

Recommendation 2: That FRAB agrees HM Treasury should proceed with the implementation of IFRS 18 in 2028-29 in accordance with the timetable proposed in the Exposure Draft and develop and publish application guidance for preparers in 2027.

IFRS 18 MDPM adaptation

14. Respondents supported the proposed adaptation excluding measures relating to budgets and Estimates from the scope of management-defined performance measures (MDPMs). Of respondents expressing a definitive view, 95% (37 of 39) agreed with the proposed adaptation clarifying that measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures.
15. Respondents broadly agreed with HM Treasury's rationale that budgetary and Parliamentary control measures are fundamentally different from the types of management-defined performance measures that IFRS 18 was intended to capture.

Of respondents expressing a definitive view, 79% (31 of 39) considered the scope and intent of the proposed adaptation concerning measures related to budgets and Estimates to be clear and appropriate.

16. Several respondents suggested amendments to the drafting of the adaptation to improve clarity and ensure the intended scope is clear. In particular, respondents requested that the adaptation explicitly cover equivalent Parliamentary and budgetary controls used by the devolved administrations, clarify that the reference to "budgets" relates to budget management rather than the Chancellor's Budget, and more clearly align the adaptation with the explanation set out in paragraph 7.7 of the Exposure Draft. Some respondents also requested explicit clarification that other measures commonly reported in the public sector, including cost recovery measures, TCFD-related metrics and other Parliamentary or administrative control measures, would not ordinarily fall within the scope of the IFRS 18 MDPM requirements.
17. HM Treasury agrees that the adaptation could more clearly articulate its intended focus on Parliamentary and budgetary controls, while remaining consistent with the requirements of IFRS 18. However, HM Treasury does not consider that cost recovery measures, TCFD-related metrics or similar disclosures would normally meet the definition of an MDPM under IFRS 18 and so does not consider further clarification on these points necessary.
18. In light of the consultation responses, HM Treasury proposes to retain the adaptation but revise the wording to more clearly reflect its intended focus on Parliamentary and budgetary controls and its application across the public sector. The proposed adaptation is shown below, with changes from the Exposure Draft shown in tracked changes.
19. Measures relating to ~~budgets~~ budget management and Estimates are excluded from the scope of management-defined performance measures for the purposes of IFRS 18. This includes measures derived from, or used to monitor performance against, Parliamentary and budgetary controls, including headline budget aggregates (such as DEL and AME), Estimate-related controls, other formal spending controls or policy ringfences, and equivalent controls used by the devolved administrations.

Recommendation 3: That FRAB agrees that HM Treasury should include the revised adaptation as set out above in the 2028-29 FReM. HM Treasury will also develop and publish application guidance in 2027, incorporating consultation feedback. A final version of the application guidance will be shared with FRAB ahead of publication.

HM Treasury

19th November 2026

Annex A – Summary of Exposure Draft feedback

Exposure Draft Question	Feedback Summary
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.	Of respondents expressing a definitive view, 95% (38 of 40) agreed that the existing IAS 1 interpretations and adaptations, other than the interpretation relating to "true and fair" and "fair presentation", should be retained and mapped to IFRS 18 or other relevant standards.
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.	Of respondents expressing a definitive view, 92% (36 of 39) agreed with the proposal to remove the existing FReM interpretation relating to "true and fair" and "fair presentation". Two of those who disagreed wanted the interpretation kept for clarity.
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.	Of respondents expressing a definitive view, 95% (37 of 39) agreed with the proposed adaptation clarifying that measures relating to budgets and Estimates are excluded from the scope of management-defined performance measures.
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.	Of respondents expressing a definitive view, 95% (36 of 38) agreed that no additional FReM interpretation is required in relation to the naming of totals and subtotals, given the flexibility already provided within IFRS 18.
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.	Of the 38 respondents expressing a definitive view, 15 (39%) anticipated practical challenges in applying the IFRS 18 categorisation requirements, although many considered that most public-sector income and expenditure would fall within the operating category. The main concerns related to the judgement required to classify transactions without clear private-sector equivalents, including policy lending and

	investments, financial guarantees, grants, derivatives and foreign exchange movements, leases, insurance activities, PDC, and provisions and discount unwinding. Respondents also highlighted operational implications such as consolidation challenges, including the risk of inconsistent treatment across departmental groups and arm's-length bodies. We have considered this feedback in paragraphs 11 and 12 of the paper above.
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.	Of the 38 respondents expressing a definitive view, 14 (37%) anticipated practical challenges in identifying or applying the specified main business activity requirements. While most respondents agreed that the requirements would affect only a limited number of FReM-reporting entities, concerns were raised about the degree of judgement required for entities combining policy delivery with lending, financing or investment activities, including departmental groups containing specialist ALBs. Respondents highlighted potential challenges where classifications may differ between entity and group accounts, creating additional consolidation complexity. We have considered this feedback in paragraphs 11 and 12 of the paper above.
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.	Of the 35 respondents expressing a definitive view, 19 (54%) anticipated practical challenges in identifying or applying the IFRS 18 requirements for management-defined performance measures, making this the area of greatest implementation uncertainty. Respondents frequently highlighted challenges in determining whether measures reported in annual reports, performance reports, public communications or ministerial reporting fall within the scope of the requirements, and in distinguishing management-defined performance measures from budgetary measures, operational KPIs and other forms of public-sector performance reporting. Respondents generally agreed

	there are likely to be few MPMs that arise in the central government context, but there were some requests for additional guidance. We have considered this feedback in paragraphs 11 and 12 of the paper above.
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?	Of respondents expressing a definitive view, 79% (31 of 39) considered the scope and intent of the proposed adaptation concerning measures related to budgets and Estimates to be clear and appropriate. Several respondents nevertheless requested additional clarification on the scope of the adaptation, particularly its application to broader Parliamentary and budgetary controls and policy ringfences. This has been addressed in the MDPM adaptation section of the paper above.
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.	Of the 38 respondents expressing a definitive view, 13 (34%) anticipated practical challenges in applying the aggregation and disaggregation requirements. Most respondents considered the requirements manageable, although some noted that additional judgement would be required when determining appropriate levels of disaggregation and materiality. Respondents generally supported the principles set out in IFRS 18. We have considered this feedback in paragraphs 11 and 12 of the paper above.
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.	Of the 37 respondents expressing a definitive view, 8 (22%) anticipated practical challenges in applying the labelling and description requirements. Respondents generally considered the requirements straightforward and consistent with existing reporting practice.
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?	Of respondents expressing a definitive view, 92% (35 of 38) agreed with the proposed implementation and transition dates for IFRS 18. Those that disagreed had a preference for implementation in 2029-30.

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)?	Respondents generally agreed that IFRS 18 is unlikely to create significant accounting impacts for consolidation, as the standard affects presentation and disclosure rather than recognition and measurement. However, several respondents highlighted operational challenges relating to revised chart of accounts mappings, reporting templates, Whole of Government Accounts returns and consolidation adjustments, particularly where classifications differ between parent departments and arm's-length bodies. As set out in the introductory table, we are working with the WGA team on the impacts of IFRS 18.
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.	Respondents identified a number of areas where additional application guidance would support implementation, with the most common requests relating to management-defined performance measures, the categorisation of income and expenses, specified main business activities, consolidation requirements and public-sector illustrative examples. Several respondents also highlighted the importance of updated illustrative accounts, transition guidance and worked examples to support consistent application across government.
Question 14: Are there any other areas not covered that you would like to comment on?	Additional comments focused primarily on implementation rather than accounting policy. Respondents emphasised the importance of early publication of illustrative accounts, reporting templates and application guidance to support system changes, comparative reporting and consistent application across government.