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IFRS update

October 2025

ICAEW CHARTERED ACCOUNTANTS

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Biography

Julia is extensively involved with the ICAEW as a volunteer and was the ICAEW President and Chair of the Board in 2022-23. She is also a past chair of the ICAEW Technical Advisory Committee, a former member of the Financial Reporting Faculty Board and of the AAT's audit committee and a past President of the Thames Valley Society of Chartered Accountants.

Julia is a well-known technical author and speaker and has had many articles published in print and online journals such as AccountingWeb UK and Audit and Beyond (the ICAEW Audit Faculty Magazine). Julia revised the Bloomsbury publication *Accounting Principles for Tax Practitioners* and was the joint author revising *A Practical Guide to UK Accounting and Auditing Standards*. She has also worked with networks of accountants providing policies, procedures and training and for software company Inflo, on their audit products.

Agenda

Changes from 2027

IFRS 18 Presentation and disclosure

IFRS 19 Subsidiaries without public accountability

Changes from 2025

IAS 21 lack of exchangeability

Changes from 2026

IFRS 9 /IFRS 7 classification and measurement

Annual improvements volume 11

Nature dependent electricity contracts

IFRIC agenda decisions

FRC Thematic and corporate reporting reviews

IFRS 18 Presentation and Disclosure in Financial Statements

Purpose and Scope

Objective of IFRS 18

IFRS 18 aims to enhance transparency and comparability of financial performance reporting across entities worldwide.

Scope and Applicability

The standard applies to all entities preparing financial statements under IFRS, effective January 2027, with early adoption allowed.

Structured Presentation

IFRS 18 introduces structured income and expense categories, new subtotals, and enhanced disclosures for clarity in profit or loss statements.

IFRS 18 – Presentation and Disclosure in Financial Statements

New standard affecting all IFRS reporters, replacing IAS 1

Introduces three key new requirements:

Specified categories and defined subtotals in statement of profit or loss;

Improved principals for aggregation and disaggregation of information; and

Disclosures about management-defined performance measures (APMs)

IFRS 18 – which line items to show

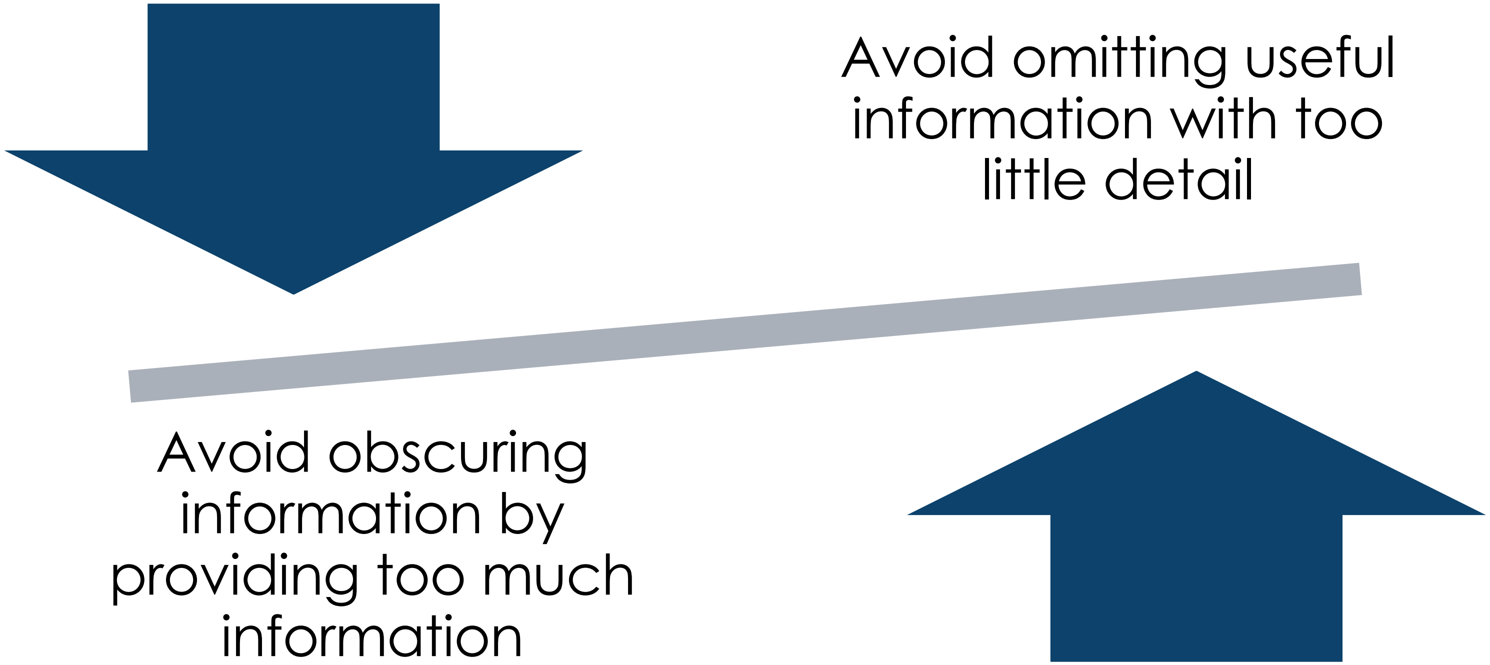
IFRS 18 introduces a two-step approach to determining which line items (as listed in the standard) should be presented:

1. Assess which required line items are material
2. Assess whether presentation of the material required line item is necessary to present **'a useful structured summary'** which is the overarching requirement

If additional line items are necessary to achieve a **useful structured summary** they should be included

If information is disclosed in a note, this should be cross-referenced to the line items in the primary financial statements to which it refers

Aggregation and disaggregation



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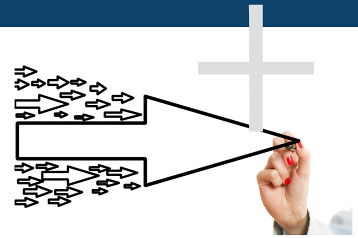
Principles for aggregation/disaggregation



- Classify and aggregate based on shared characteristics
- Disaggregate based on characteristics that are not shared
- Aggregate or disaggregate line items in primary FS that fulfil their role to provide useful structured summaries
- Aggregate/disaggregate items to disclose information in the notes that fulfils their role of providing material information
- Ensure aggregation/disaggregation does not obscure material information

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Management Performance Measures

Management-defined Performance Measures or MPMs are defined as a subtotal of income and expenses that:

a) An entity uses in public communications outside the 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 (generally it is presumed that communicating a subtotal provides management's view…); and

c) Is not listed in para 118 or specifically required to be presented or disclosed by IFRS Accounting Standards

Not MPMs

Para 118 states the following are not MPMs:

Gross profit/loss or similar

Operating profit or loss before depreciation, amortisation and impairments

Operating profit/loss and income and expenses from all investments accounted for under equity method

For an entity that applies para 73 a subtotal comprising operating P/L or income/expense in investing category

P/L before income taxes and

P/L from continuing operations

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MPMs

Where management-defined performance measures used must disclose:

Reconciliations between those measures and subtotals listed in IFRS 18 or required by IFRS;

Explanation of what, why and how calculated;

Statement about comparability which highlights limitations; and

Tax effect and how this has been calculated (see para 122, 123)

Further guidance on whether something should be in primary FS or notes is provided

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Categories

An entity shall classify income and expenses in the P/L into one of five categories:

Operating

Investing

Financing

Income taxes

Discontinued operations

The above categories do not align with those in IAS 7, so care will be needed to correctly classify in P/L and CFS

IFRS 18 subtotals

Two new defined subtotals:

Operating profit or loss

Profit or loss before financing and income taxes (ie operating P/L and investing category items)

For banks operating activities would include eg net interest, fees and commissions

Banks would not normally show this subtotal

Figure 1: Statement of profit or loss for most companies[1]

Categories	Income Statement
Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit
Investing	Share of profit and gains on disposal of associates and joint ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before income taxes
Income taxes	Income tax expense
	Profit from continuing operations
Discontinued operations	Loss from discontinued operations
	Profit

This example is the one for companies with no specified main business activity

Operating category

Operating category

This category has all income and expenses in profit or loss that are not included in the other categories

What is included elsewhere depends on whether there is a specified main business activity

Specified main business activity

To classify income and expenses into those categories, an entity must assess whether it has a **specified main business activity**, of either or both, of:

Investing in particular types of assets (investing in assets) or

Providing finance to customers

Entities should disclose if they have a specified main business activity and which of the above that is

Depending on the main business activity, items of income and expense will be disclosed differently

Specified main business activities

Examples of entities that might invest in assets as a main business activity (see B31):

Investment entities as defined by IFRS 10

Investment property companies; and

Insurers

Specified main business activity

Examples of entities that might provide financing to customers as a main business activity include (see B32):

- Banks and other lending institutions
- Entities that provide financing to customers to enable them to buy the entity's products
- Lessors that provide financing to customers in finance leases

Impact of specified main business activity

Results from an entity's main business activities are classified in the operating category of the statement of profit or loss, except for any such income and expenses from investments accounted for using the equity method.

Operating category items also include anything else that is not categorised elsewhere (eg as investing, financing etc).

Where there is a specified main business activity, broadly items that might otherwise be investing or financing items are shown in operating category. However, it is more complex than that as shown in the following slides.

IFRS 18 example – income/expense from:

Based on fig. 3.1 in supporting material

Cash and cash equivalents

- Depends on specified main business activity
- Broadly, operating if investing in financial assets or providing finance to customers, otherwise investing

Investments in associates, JVs and unconsolidated subsidiaries

- Is the investment accounted for using equity method or not related to investing in the asset as a main business activity?
- If so, classify in investing category, otherwise operating category

Other assets that generate a return individually and largely independently of the entity's other resources

- Is investing in the asset a main business activity?
- If so, classify in operating category

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Classification of items where providing financing to customers is a main business activity (MBA)

Based on fig. 3.2 in supporting material

- Income and expenses from liabilities that arise from transactions that involve only the raising of finance
  - Relating to providing financing to customers
  - Classify in operating category
- Income and expenses from liabilities that arise from transactions that involve only the raising of finance
  - Not related to providing financing to customers
  - Make accounting policy choice – operating or financing
- Interest income/expense from changes in interest rates from other liabilities
  - Classify in financing
- Income and expense from cash and cash equivalents (para 54)
  - Depends on specified main business activity
  - Operating or investing, the former broadly if MBA

Investing category

The investing category includes P/L amounts arising from:

Investments in associates, JVs, and unconsolidated subsidiaries (if investments in these are main business activity classify as investing if using equity method, otherwise in operating);

Cash and cash equivalents;

Other assets if they generate a return individually and largely independently of the entity's other resources (eg rental income, interest or dividend income and FV changes)

Financing category

Entities must distinguish between

a) Liabilities that arise from transactions that involve only the raising of finance and

b) Liabilities other than the above

For a) usually an entity classifies in financing:

Income/expenses that arise from initial and subsequent measurement or derecognition and

Incremental expenses directly attributable to issue/extinguishment

For b) depends on requirements in other standards

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Consequential amendments

IAS 7 Cash Flow Statements – changes starting point for reconciliation for indirect method to operating profit and removes optionality of category for dividends and interest

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is renamed to:

IAS 8 Basis of Preparation of Financial Statements

Some requirements that were previously in IAS 1 are moved to IAS 8, such as information on fair presentation, going concern, accruals basis of accounts etc.

IAS 34 amended to require disclosure of MPMs

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Transition

Comparative information required

Reconciliation for each line item in the statement of profit or loss with the amounts previously reported under IAS 1

Early adoption permitted if disclosed

Practical challenges

Charts of accounts and related ERP systems may need adjusting to ensure items are correctly classified eg

Allocating forex gains/losses in same category as underlying item

Financial statement close processes will need to change to take account of new requirements – plan for this now

Identifying MPMs could be challenging and will require liaison between those issuing information on the entity, such as investor relations teams, and the financial reporting teams to understand the impact of an MPM

IFRSs must now be referred to as IFRS Accounting Standards (to distinguish them from IFRS Sustainability Standards) – this will affect narrative in FS

IFRS 19 Subsidiaries without public accountability: disclosures

IFRS 19 – effective 1 Jan 2027 - early adoption permitted

Purpose:

Provides reduced disclosure requirements for subsidiaries that do not have public accountability.

Aligns with the principles of FRS 101 in the UK (but the disclosures are different)

Applies to subsidiaries that:

Are part of a consolidated group.

Do not have public accountability (e.g., not listed or regulated).

Prepare financial statements using full IFRS but seek disclosure relief.

IFRS 19

The standard is optional for qualifying entities

Entities applying IFRS 19 must:

Follow the recognition and measurement of IFRS

Replace the standard disclosures with those specified in IFRS 19

These are either cross-referenced where the disclosures in the applicable standard are required, or the disclosures required under IFRS 19 are listed under the heading for each other IFRS

Comparatives under IFRS 19 are also required, except where specifically stated otherwise

IFRS 19

In the UK it is possible that IFRS 19 will not be endorsed as FRS 101 is already well-used in this area.

Internationally, IFRS 19 is likely to provide entities within a group with welcome relief from the full disclosures required in IFRS, though the ease of doing this might depend on the software available to assist.

Changes from 2025

Amendments to IAS 21 – lack of exchangeability 1/1/25

Guidance has been added for when there is a lack of exchangeability between two currencies.

A consistent approach is taken to determining whether the currency is exchangeable and if not how to determine the exchange rate and the disclosures.

If not exchangeable, disclosures required re

Effect on performance, position and cash flows

Include the spot rate used, the estimation process and the risks from lack of exchangeability

The carrying amounts of affected assets/liabilities etc

Changes from 2026

Changes after 2025

Amendments to in IFRS 9 and IFRS 7 - 1/1/26

Classification and measurement of financial instruments

Derecognising financial liabilities through electronic payment system (EPS)

Annual improvements volume 11 – 1/1/26

IFRSs 1, 7, 9, 10 and IAS 7 include minor amends to improve consistency and to clarify situations

Classification and measurement of financial instruments 1/1/26

Amendments made to IFRS 7 and IFRS 9 clarifying

Classification of financial assets with ESG and similar features

To determine whether measurement at amortised cost must check if contractual cash flows consistent with basic lending

This requires them to pass the SPPI test (solely payments of principal and interest) on the principal outstanding

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Classification of financial assets

Are contractual terms consistent with basic lending?

Need to consider whether before and after any changes in contractual cash flow that could arise whether SPPI test is met (irrespective of probability of the CFs changing)

Non-recourse clarified – if entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specific assets

Amendments clarify the characteristics of financial assets using multiple contractually linked instruments and how to identify the underlying pool of financial instruments that creates the cash flows

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Settlement of liabilities through EPS

A financial asset is derecognised on the date that the contractual rights to cash expire, or asset is transferred

A financial liability is normally derecognised on settlement date which is when the obligation is discharged, cancelled or expires, or otherwise qualifies as such

An additional accounting policy option is added that when settling a financial liability using EPS a company may deem a financial liability to be discharged before settlement date if, and only if:

Entity has no practical ability to access the cash used for the payment or stop/cancel the payment

Settlement risk associated with the EPS is insignificant

Annual Improvements Volume 11

IFRS 9 amendment: now initially measure a trade receivable without a significant financing component at the amount determined by IFRS 15, rather than their transaction price

Clarification that if a lease liability is derecognised under IFRS 9 the difference between carrying amount and consideration goes to P/L

Amendments to IFRS 9 and IFRS 7 Contracts referencing nature-dependent electricity

Clarifies how to apply the 'own use' requirements of IFRS 9 for these contracts

Remember that if have a contract, such as forward purchase, that is/can be settled net and is not for own use, the contract is a derivative and therefore accounted for as FVTPL

Contracts to buy electricity which is nature-dependent (eg wind/solar) have variable amounts of electricity produced, which may be more or less than the amount needed by the entity, even if the intention is to use the electricity purchased.

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Nature-dependent electricity – targeted amendment effective APC 1/1/26

Amendments allow own use where the entity is a net purchaser

This is based on reasonable and supportable information about past, current and future transactions

Can only include 12 months in the 'past' aspect of above

If own use, as normal the contract is treated as executory and no accounting occurs until you buy the electricity

This allows for the variability in production of electricity and the fact that surplus will need to be sold to the grid and deficits bought from the grid

There is also an amendment to hedge accounting to allow such contracts to be designated on a variable basis

Climate related examples

Examples on reporting climate-related uncertainties

The IFRS Foundation has published (July 25) near-final illustrative examples on reporting climate-related uncertainties (final versions expected October 25)

The examples will be added to materials accompanying the IFRSs to which they relate

These examples will help to establish when additional disclosures related to, for example, transition plans or other climate related uncertainties will impact the disclosures required to be given

They will also help to identify areas where climate issues might impact the accounts, such as when asset are impaired or lives changed

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Examples

1. Materiality judgements applying paragraph 31 of IAS 1 [20 of IFRS 18]
2. Disclosure of assumptions: specific requirements
3. Disclosure of assumptions: general requirements
4. Disclosure about credit risk
5. Disclosure about decommissioning and restoration provisions
6. Disclosure of disaggregated information

IFRIC update

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IFRIC tentative agenda decisions

10 agenda decisions were identified that refer to IAS 1 requirements that were not brought forward unchanged to IFRS 18 or other standards.

Minor updates were made to 9 of these:

1. Disclosure of revenues and expenses for reportable segments
2. Demand deposits with restrictions on use arising from a contract with a third party
3. Subsequent expenditure on biological assets
4. Disclosure of changes in liabilities arising from financing activities
5. Physical settlement of contracts to buy or sell a non-financial item

Minor IFRIC updates re IAS 1

6. Presentation of income and expenses arising on financial instruments with a negative yield
7. Presentation of payments on non-income taxes
8. Classification of tonnage taxes
9. Current or non-current asset classification – normal operating cycle.

Other tentative update to IFRIC decision

More extensive updates to the agenda decision Supply chain financing arrangements – reverse factoring, was made.

Determining and accounting for transaction costs (IFRS 9) - no change

Embedded prepayment option (IFRS 9) – no change

Assessing indicators of hyper-inflationary economy (IAS 29) – no change

Finalised agenda decisions

Classification of cash flows related to variation margin call payments made to contracts to purchase or sell commodities

Whether an entity's investment in carbon credits etc meets IAS 38 intangible asset recognition criteria

How an entity accounts for guarantees that it issues (is it a financial guarantee or not)

Revenue recognition from tuition fees (10 months or 12 months spread)

Common problems (AKA learning from others' mistakes!)

FRC thematic reviews

The UK's FRC produces both thematic and annual corporate reporting reviews (CRRs). These are helpful in identifying areas of weakness in reports or common problems.

The latest review at the time of writing is the 23/24 review published in September 2024

Recent thematic reviews include:

Offsetting

IFRS 17 insurance contract disclosures in first year of application

Reporting by the UK's largest private companies

Climate-related metrics and targets 2023

IFRS 13 fair value measurement

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Offsetting

The FRC has observed issues with offsetting, where items have been netted off where not permitted, in the following areas over the last four years (in order of prevalence):

Cash flow statements eg overdrafts, cash pooling arrangements – need legal right to set off and intention to do so)

Financial instruments – intention to settle again important

Provisions

Income taxes – legal right, and same tax authority and entity or settling net/simultaneously

Presentation of financial statements (eg other net income)

Other (revenue, employee benefits, disposal group)

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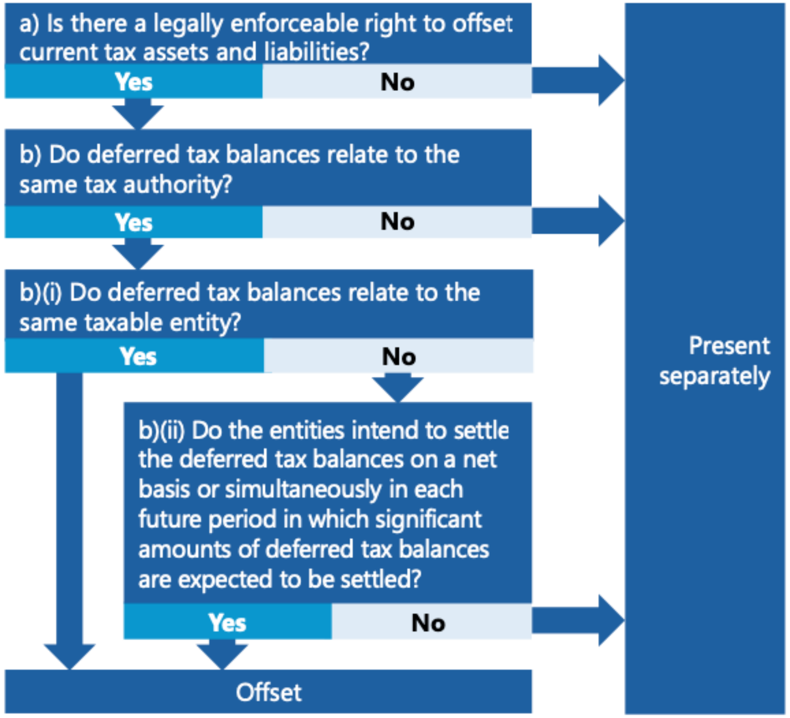
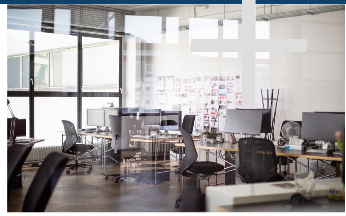
Flowchart to check if deferred tax must be offset (FRC Thematic Review)





Large company reporting thematic review

Strategic reports – doesn't have to be long, needs to be clear, concise, understandable and consistent with disclosures in financial statements

Should explain the business model and how it fits into the wider group

Accounting policies for complex transactions should be tailored and specific, but often found to be boiler-plate and unhelpful

Judgements and estimates should be clearly explained with the rationale for the conclusion and sensitivity analysis may need quantifying to explain significance of estimation uncertainty

Financial instrument risks need more entity specific disclosures

Provisions disclosures needed more detail.

Climate-related metrics and targets

Report related to TCFD disclosures

Key questions to ask

Has companies' climate related metrics and targets reporting improved?

Are companies adequately disclosing their plans for transition to lower carbon economy, including interim milestones?

Are companies using consistent and comparable metrics?

Are companies explaining how their targets have affected the financial statements?

Findings of review

Improvements in reporting seen

Main areas for further improvement are:

Definition and reporting of company-specific metrics and targets, beyond headline 'net zero' statements

Better linkage between climate-related metrics and risks/opportunities to which they relate

Explanation of year-on-year movements in metrics and performance

Transparency about internal carbon prices where used

Better linkage between climate-related targets in TCFD and ESG targets in directors' remuneration reports

FRC Thematic review IFRS 13 FV measurement

Fair value measurements should use market participants' assumptions not the company's own assumptions

Whist transaction price usually reflects fair value this is not always the case, eg with related parties. Companies should ensure appropriate adjustments are made in such cases

Companies should consider whether specialist advice is needed in valuing a material item. If used, disclose this.

IFRS 13 disclosures required for each class of asset and liability, determined on basis of nature, characteristics and risks. Consider usefulness of disclosures when deciding on aggregation level

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FRC Thematic review IFRS 13 FV measurement

Disclosures sometimes missing for Level 3 measurement for which significant unobservable inputs should be quantified and a sensitivity analysis given

Companies should consider overall disclosure objectives, as well as specific requirements

Avoid boilerplate or immaterial information

Explain how climate-related matters materially affect FV where relevant and **how** impact has been incorporated into measurement

Consistency across the annual reports and accounts, with management commentary further explaining FV measurements

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CRR 2024 – Top 10 problem areas

Issue	Ranking 23/24	Ranking 22/23	Ranking 21/22	Ranking 20/21
Impairment of assets	1	1	9=	4
Cash flow statements	2	3	1	3
Financial instruments	3	5	2	6
Revenue	4	6=	5	2
Presentation of FS	5	9	9=	-
Strategic report and CA matters	6	4	4	7
Judgements and estimates	7=	2	8	1
Income Taxes	7=	6=	3	9=
Fair value measurement	9=	10	-	-
TCFD and climate-related narrative reporting	9=	-	-	-

CRR areas which most frequently required restatement -23/24

Impairment of assets (unclear assumptions, climate uncertainties not reflected, correct approach not taken/apparent)

Cash flow statements (material inconsistencies in CFS with other areas of annual report, inclusion of non-cash amounts, incorrect offsetting)

Presentation (ensuring company specific information about material accounting policies and transactions, issues with classification of intercompany receivables between current and non-current)

Income taxes

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FRC What makes a good annual report and accounts

High quality annual report and accounts (ARA):

Comply with relevant accounting standards, laws and regulations

Are responsive to the needs of stakeholders in an accessible way

Demonstrate the corporate reporting principles and effective communication outlined in the FRC report on what makes a good ARA

Link

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Corporate reporting principles

Corporate reporting principles (ACCOUNT):

Accurate

Connected

Complete

On-time

Unbiased

Navigable

Transparent

4C's of effective communication

Company Specific

Clear, concise and understandable

Clutter free and relevant

Comparable

Questions

Resources

1. FRC Corporate Reporting Review 2024
2. FRC What makes a good annual report and accounts
3. FRC Thematic review – offsetting
4. FRC IFRS 17 Insurance Contracts Disclosures in the First Year of Application
5. FRC Reporting by the UK's largest private companies
6. FRC Thematic review of climate-related metrics and targets
7. FRC Thematic review IFRS 13 fair value measurement
8. IFRC Agenda decisions

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Thank you for your time

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