

Explanatory Statement

Accounting Standard AASB 18 *Presentation and Disclosure in Financial Statements*

June 2024



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of AASB 18

Background

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 aims to improve how entities communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss. Better information will contribute to efficient and resilient capital markets by enabling financial statement users to make better decisions.

The Standard responds to stakeholder feedback that:

- (a) statements of profit or loss varied in structure and content;
- (b) performance measures defined by management are useful to investors, but entities might not explain how these measures are calculated and why they are used; and
- (c) investors would like to see information more appropriately grouped (i.e. aggregated or disaggregated) in the financial statements.

AASB 18 *Presentation and Disclosure in Financial Statements* is the Australian equivalent of IFRS 18.

Main Requirements

The key presentation and disclosure requirements established by AASB 18 are:

- (a) the presentation of newly defined subtotals in the statement of profit or loss. AASB 18 requires an entity to:
 - (i) classify income and expenses into operating, investing and financing categories in the statement of profit or loss – plus income taxes and discontinued operations; and
 - (ii) present two newly defined subtotals – operating profit and profit before financing and income taxes;
- (b) the disclosure of management-defined performance measures. Management-defined performance measures are alternative measures or measures that are not defined by Australian Accounting Standards that are subtotals of income and expenses used in public communications. AASB 18 requires disclosure of reconciliation between those measures and the subtotals required by AASB Standards; and
- (c) enhanced requirements for grouping (aggregation and disaggregation) of information. AASB 18 provides guidance for entities on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. These principles generally require entities to:
 - (i) aggregate items that share characteristics and disaggregate items that have different characteristics;
 - (ii) group items in a way that does not obscure material information or reduce the understandability of the information presented; and
 - (iii) place items in the primary financial statements and the notes to fulfil their complementary roles.

In combination, these three key sets of requirements strike a balance by introducing defined subtotals that create a consistent structure in the statement of profit or loss to provide a starting point for analysis, while leaving room for entities to report their own performance measures. The disclosure requirements for management-defined performance measures anchor entities' own performance measures to the defined subtotals, increasing the transparency of these measures. Additionally, the principles for grouping information will help entities provide more useful information.

AASB 18 replaces AASB 101 *Presentation of Financial Statements*. As a result, the requirements in AASB 101 have been:

- (a) replaced by new requirements in AASB 18;
- (b) transferred to AASB 18 with only limited wording changes; or
- (c) moved to AASB 108 *Basis of Preparation of Financial Statements*¹ or AASB 7 *Financial Instruments: Disclosures* with only limited wording changes.

AASB 18 has also introduced changes to most other Australian Accounting Standards, including AASB 107 *Statement of Cash Flows*, AASB 133 *Earnings per Share* and AASB 134 *Interim Financial Reporting*.

¹ Previously AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2027 for for-profit entities (other than superannuation entities applying AASB 1056 *Superannuation Entities*). Earlier application is permitted.

However, the Standard applies to the following entities for annual reporting periods beginning on or after 1 January 2028:

- (a) not-for-profit private sector entities;
- (b) not-for-profit public sector entities; and
- (c) superannuation entities applying AASB 1056.

Earlier application is also permitted for these entities.

Standards Amended by AASB 18

This Standard makes amendments to 48 Australian Accounting Standards, 20 Interpretations and one Practice Statement, as set out in Appendix D to the Standard. Appendix D incorporates marked-up text to identify the amendments clearly. All amendments are incorporated using clean text into the compilations of the affected pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing this Standard

The IASB's proposals preceding IFRS 18 were issued for public comment in December 2019. The AASB issued the same proposals in Australia for public comment in Exposure Draft ED 298 *General Presentation and Disclosures* in January 2020. Comments were due to the AASB by 15 August 2020.

Between January and October 2020, the IASB and staff participated in 139 events with stakeholders from various jurisdictions globally and met with 32 individuals or groups of investors to discuss feedback on the IASB's Exposure Draft. The AASB hosted some of these events, ensuring feedback from Australian stakeholders was heard directly by the IASB. From October to December 2022, the IASB sought feedback on selected changes to proposed requirements in the Exposure Draft. The IASB and others, including the AASB, organised discussions with stakeholders to obtain their views on these changes to the proposed requirements in the Exposure Draft.

In developing its views on the proposals, the AASB consulted with the AASB's User Advisory Committee, comprising a range of primary users of financial statements, hosted two webinars seeking feedback on the proposals, with participation from over 130 stakeholders, and consulted with the AASB's Disclosure Initiative Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups. The AASB received three formal comment letters from stakeholders and conducted other targeted consultation with key stakeholders, such as other regulators in Australia.

After considering the feedback from Australian stakeholders, the AASB expressed support for the IASB's proposed new requirements, which the AASB considered would provide enhanced comparability for users of financial statements. The AASB did have some concerns with the proposals, however most of the AASB's concerns were addressed by the IASB in finalising IFRS 18.

AASB 18 was issued in June 2024 as a consequence of the IASB issuing IFRS 18 in April 2024.

The AASB set an effective date of annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. This is consistent with the effective date of IFRS 18.

However, as the AASB has planned further due process to consider potential modifications of AASB 18 for application by not-for-profit private sector entities, not-for-profit public sector entities and superannuation entities applying AASB 1056, the AASB set an effective date for these entities of annual reporting periods beginning on or after 1 January 2028, with earlier application also permitted. The AASB considered that delaying the effective date of AASB 18 for these entities would ensure they have a similar implementation period for applying AASB 18, including any modifications the AASB may make to AASB 18, to those entities applying the Standard from 1 January 2027.

A Policy Impact Analysis has not been prepared in connection with the issue of AASB 18 as the new requirements are not onerous for entities preparing financial statements under Australian Accounting Standards or users of financial statements. The Office of Impact Analysis considered a preliminary Impact Analysis.

Legislative Features of Accounting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be

construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Copyright

This Standard, like all Accounting Standards promulgated by the AASB, is published with Commonwealth of Australia copyright. Educational, commercial and other publishers are able to request the AASB for permission to reprint all or parts of this Standard, which is given without charge.

Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunseting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Australian Accounting Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Standards are exempt from sunseting because a more stringent review process than sunseting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunseting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 18 *Presentation and Disclosure in Financial Statements*

Overview of the Accounting Standard

Background

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

² Previously AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.