Disclosure of Management-defined Performance Measures (MPMs) under IFRS 18

Introduction

In our last IFRS 18 related articles, we looked at the overview of Standard and the improved structure of the statement of profit or loss introduced by the Standard. This article delves deeper on management-defined performance measures ('MPMs').

In the past, entities have defined and voluntarily presented their own measures of performance, commonly referred to as alternative performance measures (APMs) or non-GAAP measures, in their financial statements.

To support the new statement of profit or loss structure and ensure the reported balances are well corroborated, IFRS 18 *Presentation and Disclosure in Financial Statements* defines what will qualify as MPM and makes MPMs disclosure a mandatory requirement. Under these new requirements, only a subset of the APMs or non-GAAP measures which relate to an entity's financial performance will qualify as MPMs.

This is aimed at promoting transparency and usefulness of financial information.

What is a management-defined performance measure (MPM)?

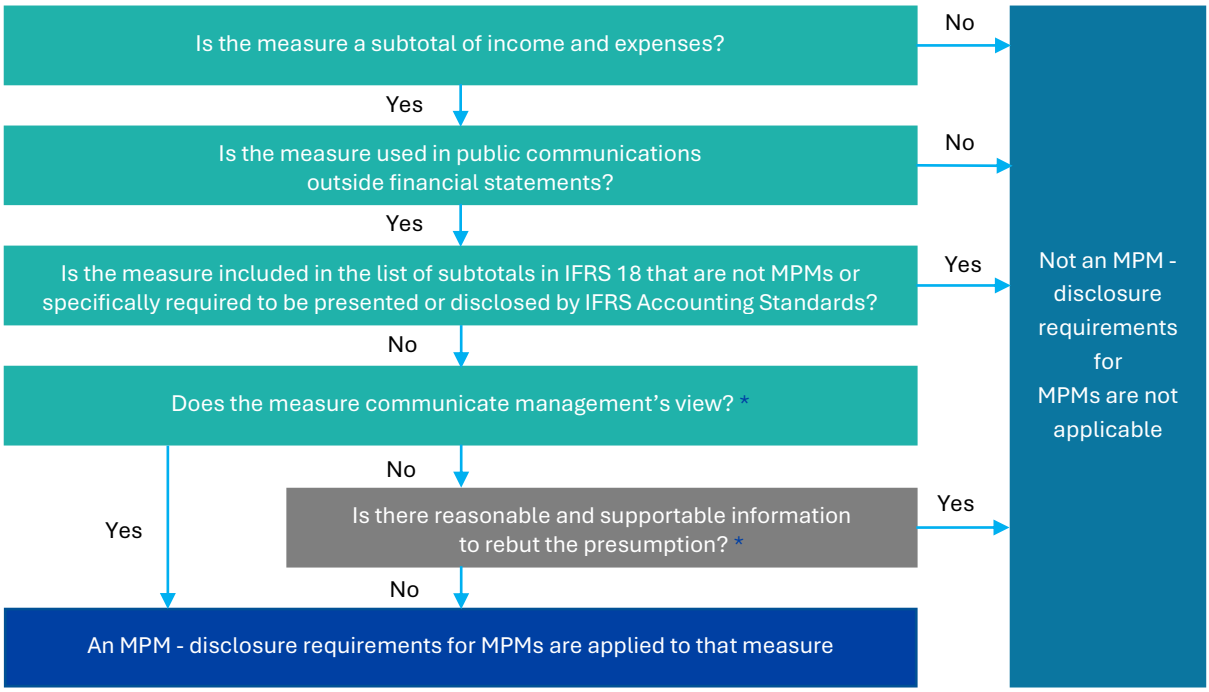
An MPM is a subtotal of income and expenses that:

- ☑ is used in public communications outside financial statements;
- ☑ is used to communicate to investors management's view of an aspect of the financial performance of the company as a whole; and
- ☑ is not listed in IFRS 18 or specifically required by IFRS Accounting Standards.

Therefore, the definition of MPMs excludes the following;

- ☒ financial performance measures that are not subtotals of income and expenses e.g. return on equity, free cashflows;
- ☒ non-financial performance measures e.g. number of customers; and
- ☒ totals/subtotals specified in IFRS Accounting Standards e.g. profit before income taxes, gross profit.

In line with the definitions provided above, companies can apply the criteria summarised below to identify an MPM:



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** It is presumed that a subtotal of income and expenses used in public communications communicates management's view; a company is not required to consider whether to rebut the presumption.*

Examples of MPMs and other performance measures

The table below provides examples of MPMs and other performance measures in line with the definitions provided above.

Performance measures	Examples of performance measures	Comment(s)
Management-defined performance measures (MPMs)	– Adjusted profit – Adjusted operating profit – Adjusted earnings before interest, tax, depreciation and amortisation	These **qualify** as MPMs because: – They are subtotals of income and expenses. – They are not totals/subtotals specified in IFRS.
IFRS-Specified performance measures	– Operating profit – Operating profit before depreciation, amortisation and impairments within the scope of IAS 36 *Impairment of Assets*	These **don't qualify** as MPMs because: – They are totals/subtotals specified in IFRS.
Other performance measures	– Free cash flow – Return on equity – Net debt – Number of customers – Customer satisfaction	These **don't qualify** as MPMs because: – The first three are not subtotals of income and expenses; and – The last two are non-financial performance measures.

What are the MPMs disclosure requirements?

IFRS 18 requires the disclosure of management-defined performance measures (MPMs) in a single note, including:

- a statement that the MPM reflects management's view;
- an explanation of why the MPM is reported;
- an explanation of how the MPM is calculated;
- an explanation of any changes to MPMs; and
- a reconciliation to the most directly comparable subtotal listed in IFRS 18 or total or subtotal required by IFRS Accounting Standards.

If a company changes the calculation of an MPM, introduces a new MPM, or ceases to use a previously disclosed MPM, it will disclose:

- an explanation of the change, addition or cessation and its effects;
- the reasons for the change, addition or cessation; and
- restated comparative information to reflect the change, addition or cessation unless it is impracticable to do so.

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Illustrative examples of MPMs disclosure

1. The following is an illustrative example of narrative information on MPMs highlighting that the MPM reflects management's view, explaining why the MPM is reported, and explaining how the MPM is calculated.

> The Group uses 'adjusted operating profit' and 'adjusted profit' as management performance measures in its financial communications with users of financial statements. These measures provide management's view of an aspect of the Group's financial performance as a whole. They are not specified by IFRS Accounting Standards and therefore may not be comparable to apparently similar measures used by other entities.
>
> The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group. The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group's management, should be considered separately when assessing trends:
>
> 1. Unusual income and expenses - these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.
> 2. Revenue adjustment - the Group has acquired several entities in Country A which had recognised contract liabilities. IFRS 3 Business Combinations requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.

2. Below is an example of a reconciliation of an MPM *(adjusted operating profit)* to the most directly comparable subtotal listed in IFRS 18 *(operating profit)*.

	20X1
Adjusted operating profit (MPM)	**xx**
Adjusting items:	
Impairment losses	(xx)
Restructuring expenses	(xx)
Income tax	xx
Operating profit	**xx**

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Prepared by:

Alexander Thuku
Senior Financial Consultant
AARO Systems AB
E: alexander.thuku@aaro.com

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