

IFRS 18 – the Last Mile to Adoption

KPMG CFO | Financial Reporting Series





Welcome Remarks



Wilson Lee

Head of Audit
Hong Kong SAR
KPMG China

Panel Discussion

Moderator



Roy Leung

Head of Public Affairs and
Head of Accounting Change Advisory
Hong Kong SAR
KPMG China

Panelists



Andy Choi

CFO
Hysan Development



Paul McSheaffrey

Senior Banking Partner
Hong Kong SAR
KPMG China



YiFei Gong

Director
Professional Practice
Hong Kong SAR
KPMG China

Polling Question



Which of the following best describes your implementation status of IFRS 18?

- A Not started – no formal implementation activities yet
- B Initial assessment underway – scope, impacts and key workstreams being identified
- C Detailed implementation in progress – accounting analyses, data, systems and processes being developed and tested
- D (Substantially) completed – only final refinements needed

IFRS 18 Readiness: Link Changes, Enablement and Adoption

Adoption

Transition and Stakeholders Management

- Governance
- Training
- KPIs and covenants review
- Cross-functional collaboration
- Board/ audit committee/ auditor alignment
- Market communications
- Comparatives

Changes

More Structured Income Statement

- 2 new subtotals – operating profit or loss and operating profit or loss before financing and income tax
- 3 new categories – operating, investing and financing
- Main business activities and nature of assets or liabilities drive classification

Disclosed and Audited MPMs

- Management-defined performance measures (MPMs) are now disclosed in the financial statements and subject to audit
- MPMs capture some but not all non-GAAP measures
- New disclosures may involve additional effort

Enhanced Aggregation and Disaggregation of Information

- Newly defined roles for primary financial statements and notes to guide where to provide material information
- Enhanced principles of aggregation vs disaggregation based on shared vs non-shared characteristics
- New disclosures for operating expense by function
- Labelling items as 'others' discouraged

Enablement

Data, Systems, Processes and Controls

- Chart of account mapping
- Accounting manual update
- Data lineage and granularity
- IT systems
- Financial reporting processes
- Internal controls

Specific Requirements for Companies with Specified Main Business Activities ('SMBA')

Assessment of SMBA

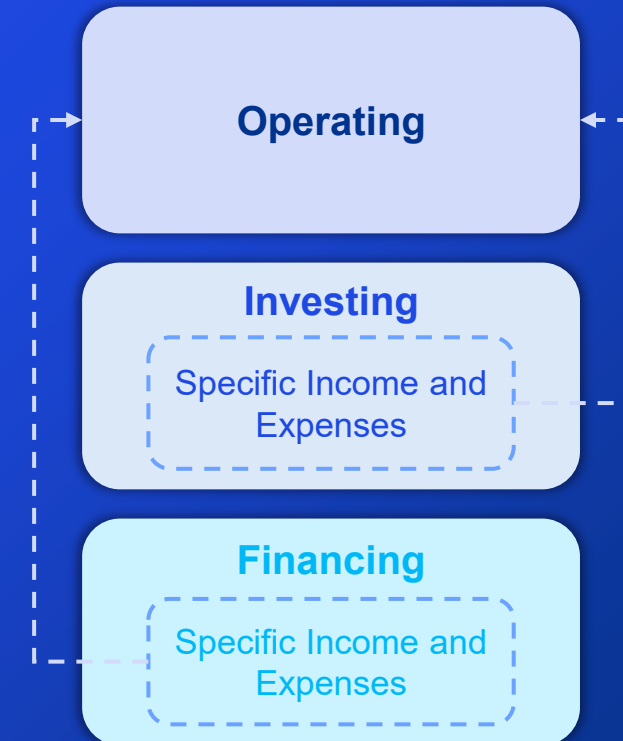
Investing in Assets
(e.g. insurers, investment property companies)

Providing Financing to Customers
(e.g. banks and other lending institutions)

- Does the company use a subtotal similar to gross profit as an important indicator of its operating performance
- Consider segment information for evidence of SMBA
- Assessment is performed from the perspective of the **reporting entity as a whole**: group vs standalone financial statements

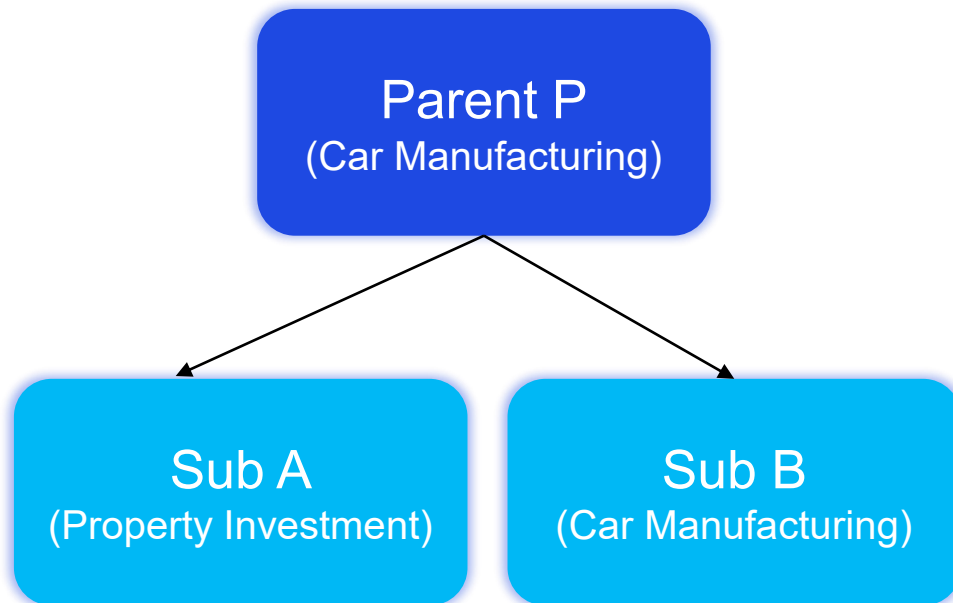
Evidence-Based
Assessment;
Judgement
Required

Classification of Income and Expenses by Companies with SMBA



Example: Different SMBA Assessment Outcomes at Different Reporting Entity Levels

Group (Car Manufacturing)



Scenario:

- The Group consists of parent P and subsidiaries A and B
- Both parent P and subsidiary B are in the business of manufacturing cars
- Subsidiary A is in the business of property investment.
 - In its own financial statements, subsidiary A concludes that property investment is its main business activity
- In its *consolidated* financial statements, parent P concludes that property investment is *not* its main business activity

Classification of rental income earned by subsidiary A:

- In subsidiary A's F/S: *operating* category
- In parent P's consolidated F/S: *investing* category

IAS 28 Amendments – Fair Value Option for Associates and Joint Ventures



What's the Issue?

- Eligible companies may elect to measure an investment in an associate/ JV at fair value through profit or loss (the 'fair value option')
- There is diversity in practice about who can apply the fair value option



What's the Change?

- Extend the fair value option to companies with a main business activity of investing in particular types of assets (not limited to associates/ JVs)
- Remove the example of an investment-linked insurance fund



What is the Impact?

- Upon initial application of IFRS 18, eligible companies may change the measurement of its investments in associates/ JVs from equity accounting to fair value through profit or loss
 - Election is made for each associate or JV
- Companies with a **main business of investing in associates/ JVs** classify income/ expenses from **investments measured at fair value** in the **operating** category

Classification of Foreign Exchange Differences

Illustrative Income Statement (IAS 1) Entities without SMBA

Revenue	X
Cost of sales	(X)
Gross profit	X
Selling and distribution expenses	(X)
Administrative expenses	(X)
Other gains/ losses	X
Share of post-tax profits of equity accounted investees	X
Operating profit	X
Finance costs	(X)
Finance income	X
Profit before tax	X
Taxation	(X)
Profit for the period	X

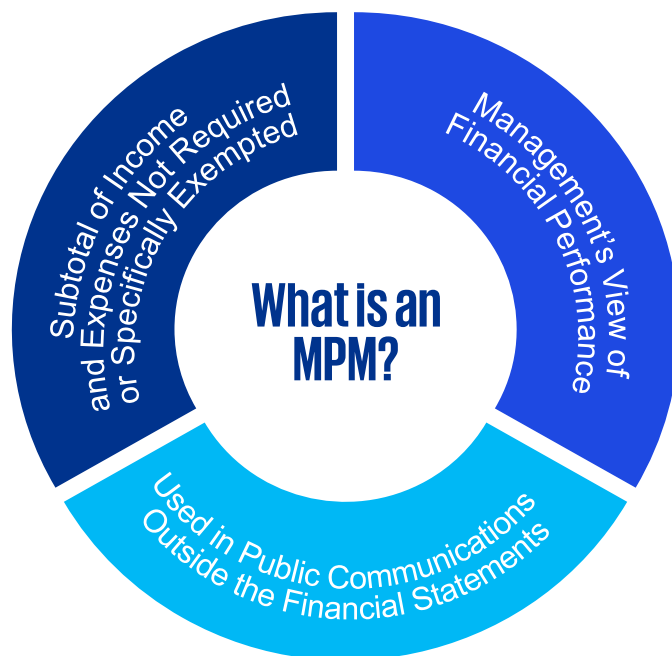
FX gains and losses

Illustrative Income Statement (IFRS 18) Entities without SMBA

Operating Category	Revenue	X
	Operating expenses (analysed by nature, function or both as appropriate)	(X)
	Operating Profit or Loss	X
Investing Category	Share of profit or loss of equity-accounted investees	X
	Income from other investments	X
	Interest income from cash and cash equivalents	X
	Profit or Loss before Financing and Income Tax	X
Financing Category	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities	(X)
	Profit or Loss before Tax	X
	Income tax	(X)
	Profit or loss	X

- In the **same category** as the income and expenses from the items that gave rise to the FX differences
- In the **operating category** if require **undue cost or effort**

Management-Defined Performance Measures (“MPMs”)



In a single note in the financial statements, an entity discloses the following on MPMs:



Describe

- the aspect of financial performance that, in management's view, is communicated by the MPM
- why the MPM provides useful information
- how the MPM is calculated, including whether and how it differs from IFRS



State

- that the MPMs provides management's view of the entity's performance
- that the MPM is not necessarily comparable to MPMs of other companies



Reconcile

- the MPM to the most directly comparable subtotal required by IFRS or listed in IFRS 18, including the tax and NCI effect for each reconciling item
- additional disclosures apply for each reconciling item



Explain

- changes in how the MPM is calculated
- when a new MPM is added
- when a previously disclosed MPM is ceases
- changes in how the income tax effects is determined

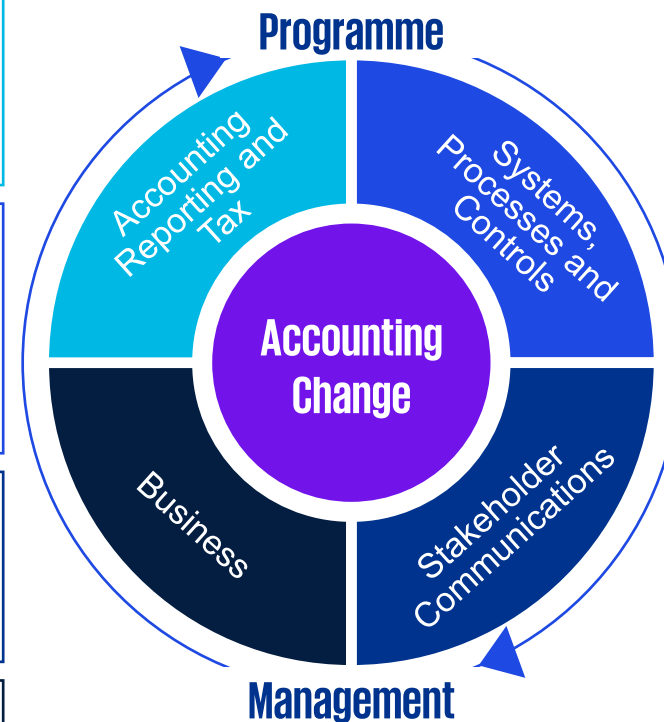
Certain 'non-GAAP' measures that meet the definition of MPMs will now be reported in the financial statements and subject to audit. As a result, entities may decide to revisit the purpose and relevance of existing 'non-GAAP' measures communicated outside the financial statements.

Your Path to Readiness

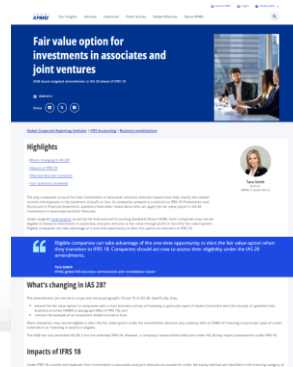
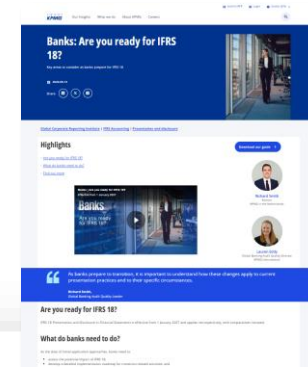
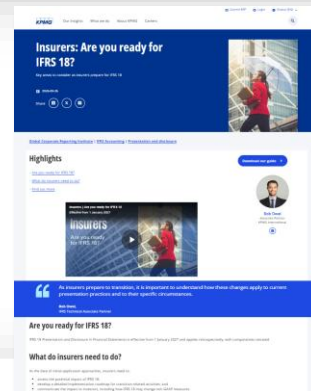
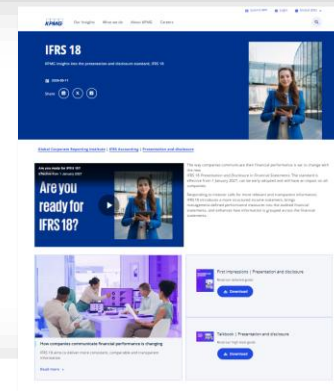
IFRS 18 readiness is a change programme, not just a reporting update. Impacts go beyond the financial statements to include systems, processes and controls, contracts linked to financial performance measures and stakeholder communications.

Key Actions for Transition

Assess	<ul style="list-style-type: none"> Assess impacts on the financial statements and MPMs, including new judgements Assess knock-on impacts on covenants, remuneration and other arrangements linked to performance measures
Design	<ul style="list-style-type: none"> Identify data requirements and changes needed to systems (source systems, ERPs, consolidation tools), processes and controls Develop future-proof and audit-ready solutions Plan for comparative and additional data requirements
Engage	<ul style="list-style-type: none"> Engage the Board, Audit Committee, auditors and investors Communicate key impacts and transition plans Explain changes to performance measures
Implement	<ul style="list-style-type: none"> Test output from updates to systems, processes and controls Finalise IFRS 18 financial statements and disclosures, including supporting internal documentation



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Contact Us



Wilson Lee

Head of Audit
Hong Kong SAR
KPMG China
wilson.lee@kpmg.com



Paul Lau

Head of Capital Markets
Head of Professional Practice
KPMG China
paul.k.lau@kpmg.com



Roy Leung

Head of Public Affairs and
Head of Accounting Change Advisory
Hong Kong SAR
KPMG China
roy.leung@kpmg.com



Paul McSheaffrey

Senior Banking Partner
Hong Kong SAR
KPMG China
paul.mcsheaffrey@kpmg.com



Yifei Gong

Director
Professional Practice
Hong Kong SAR
KPMG China
yifei.gong@kpmg.com



kpmg.com/cn/socialmedia



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