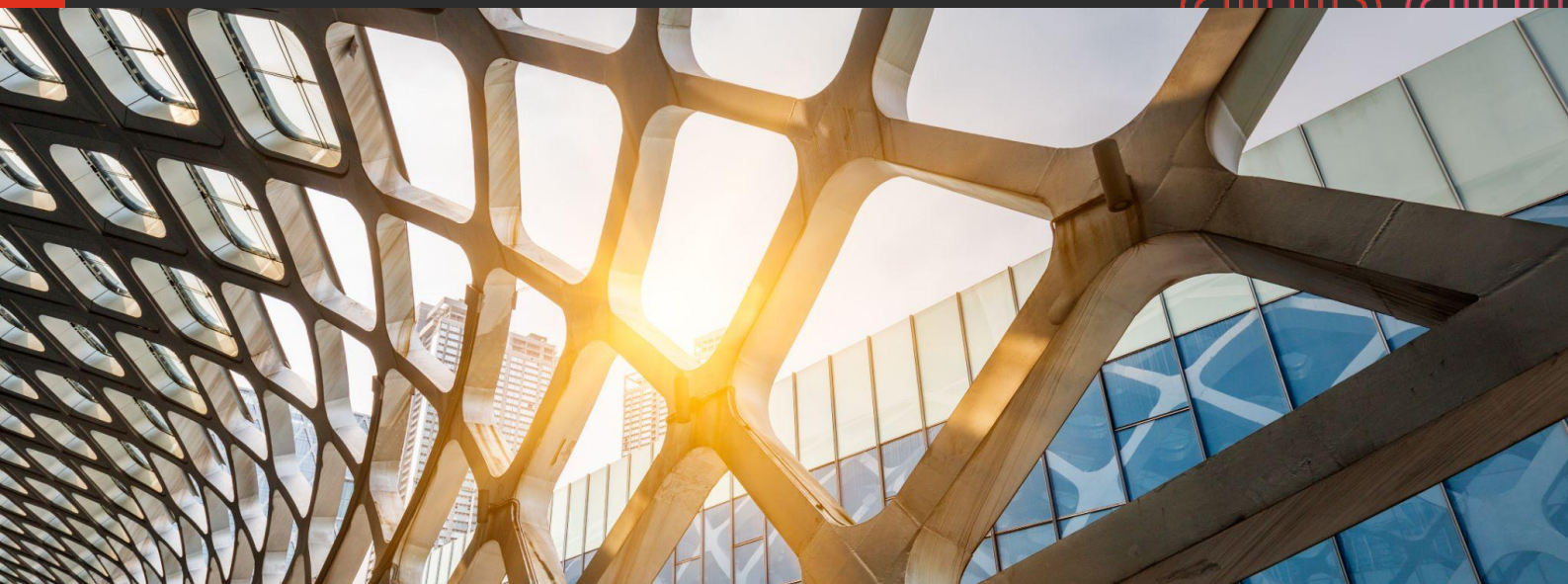


In Brief:

NZ IFRS 18 is here: redefining financial performance reporting



At a glance

The External Reporting Board ('XRB') issued NZ IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss.

Key points

The key new concepts introduced in [NZ IFRS 18 Presentation and Disclosure in Financial Statements](#) relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures ('MPMs')); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

NZ IFRS 18 will replace NZ IAS 1, but many of the existing principles in NZ IAS 1 are retained and the recognition or measurement of items in the financial statements are not impacted. The main impact as a result of adopting NZ IFRS 18, is on the reporting of 'operating profit or loss', disclosure of management-defined performance measures and enhanced guidance on aggregation and disaggregation.

NZ IFRS 18 applies to reporting periods (including interim periods) beginning on or after 1 January 2027 and also applies to comparative information.

The changes in presentation and disclosure required by NZ IFRS 18 might necessitate changes to processes and mapping of data for many entities, so they should start preparing for adoption now.

* This publication replaces the In brief published with the same title earlier in 2024 before the XRB issued NZ IFRS 18.

What's the issue?

On 23 May the XRB issued a new standard – [NZ IFRS 18, 'Presentation and Disclosure in Financial Statements'](#) – in response to investors' concerns about the comparability and transparency of entities' performance reporting. The new requirements introduced in NZ IFRS 18 will help to achieve comparability of the financial performance of similar entities, especially related to how 'operating profit or loss' is defined. The new disclosures required for some management-defined performance measures will also enhance transparency.

Key changes

1. Structure of the statement of profit or loss

NZ IFRS 18 introduces a defined structure for the statement of profit or loss, the goal of which is to reduce diversity in reporting, helping users of financial statements to make better comparisons between companies. This defined structure is composed of categories and required subtotals:

- a. **Categories:** Items in the statement of profit or loss will need to be classified into one of five categories: operating, investing, financing, income taxes and discontinued operations. NZ IFRS 18 provides general guidance for entities to classify the items among these categories – the three main categories are:

1 Operating category

Not defined by NZ IFRS 18, this is the 'residual' category for income and expenses that are not classified in other categories. This will typically include the entity's results from its main business activities.

2 Investing category

This category typically includes:

- results of associates and joint ventures;
- income and expense of cash and cash equivalents; and
- assets that generate a return individually and largely independently of other resources.

3 Financing category

This category includes:

- all income and expenses from liabilities that involve only the raising of finance (such as typical bank borrowings); and
- interest expense and the effects of changes in interest rates from other liabilities (such as unwinding of the discount on a pension liability).

NZ IFRS 18 includes additional requirements for entities that provide financing to customers (for example, banks) or that invest in assets with specific characteristics (for example, an investment entity) as a main business activity. As a result, certain income and expenses that might have been classified as investing or financing, will be presented in the operating category. The result of this is that operating profit will include the results of an entity's main business activities

- b. **Required subtotals:** NZ IFRS 18 requires entities to present specified totals and subtotals: the main change relates to the mandatory inclusion of 'Operating profit or loss'. The other required subtotals are 'Profit or loss' and 'Profit or loss before financing and income taxes', with some exceptions (for example, where a bank has financing as a main business activity and has made specific presentation choices).

These principles are illustrated in the following examples in the Appendix to this In Brief:

- Statement of profit or loss of a general corporate
- Statement of profit or loss of an insurer
- Statement of profit or loss of an investment and retail bank



2. Disclosures related to the statement of profit or loss

NZ IFRS 18 introduces specific disclosure requirements related to the statement of profit or loss:

- a. **Management-defined performance measures:** Management might define its own measures of performance, sometimes referred to as 'alternative performance measures' or 'non-GAAP measures'. NZ IFRS 18 defines an MPM as a subtotal of income and expenses that an entity uses in public communications outside the financial statements, to communicate management's view of an aspect of the financial performance of the entity as a whole. MPMs are those measures that are not specifically listed in NZ IFRS 18 (e.g. gross profit, operating profit or loss before depreciation, amortisation and impairments etc) and not specifically required to be presented or disclosed by NZ IFRS Accounting Standards. Information related to MPMs should be mandatorily disclosed in the financial statements in a single note, including a reconciliation between the MPM and the most similar specified subtotal in NZ IFRS Accounting Standards. This will effectively bring a portion of non-GAAP measures into the financial statements, however that does not make them 'GAAP measures'.
- b. **Disclosure of expenses by nature, for entities that present the statement of profit or loss by function:** Entities will present expenses in the operating category by nature, function or a mix of both. NZ IFRS 18 includes guidance for entities to assess and determine which approach is most appropriate, based on the facts and circumstances. Where items are presented by function, an entity is required to disclose information by nature for specific expenses.

3. Aggregation and disaggregation (impacting all primary financial statements and notes)

NZ IFRS 18 provides enhanced guidance on the principles of aggregation and disaggregation which focus on grouping items based on their shared characteristics. These principles are applied across the financial statements, and they are used in defining which line items are presented in the primary financial statements and what information is disclosed in the notes.

4. Other limited changes

NZ IFRS 18 will make some other limited changes to presentation and disclosure in the financial statements. For example, NZ IAS 7 is amended to:

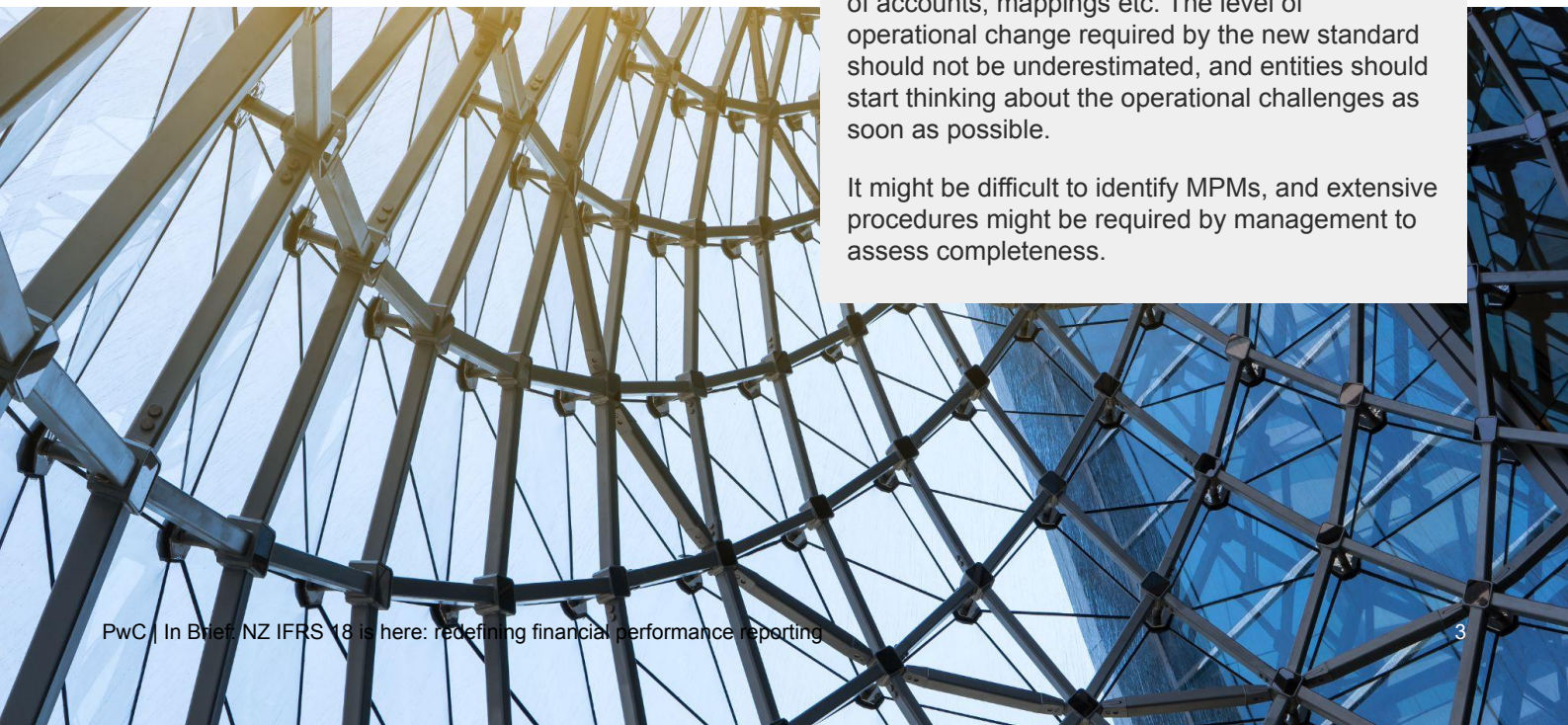
- a. specify 'operating profit or loss' as the starting point for reconciling cash flows from operating activities; and
- b. remove the existing options for the presentation of interest and dividends paid and received.

PwC Observation

The guidance on aggregation and disaggregation has changed. This will require entities to reconsider their chart of accounts to evaluate whether their existing presentation is still appropriate or whether improvements can be made to the way in which line items are grouped and described in the primary financial statements.

In addition, changes in the structure of the statement of profit or loss and additional disclosure requirements might require an entity to make significant changes to its processes, charts of accounts, mappings etc. The level of operational change required by the new standard should not be underestimated, and entities should start thinking about the operational challenges as soon as possible.

It might be difficult to identify MPMs, and extensive procedures might be required by management to assess completeness.



Who is impacted?

All entities reporting under NZ IFRS Accounting Standards will be impacted.

The XRB published NZ IFRS 18 in May 2024.

NZ IFRS 18 contains disclosure concessions for entities reporting under Tier 2 for-profit Accounting Requirements.

When does it apply?

The new standard will be effective for annual reporting periods beginning on or after 1 January 2027, including interim financial statements. Retrospective application is required, and so comparative information needs to be prepared under NZ IFRS 18.

In the year of adopting NZ IFRS 18, the standard requires a reconciliation between how the statement of profit or loss was presented for the comparative period under NZ IAS 1 and how it is presented in the current year under NZ IFRS 18. Interim financial statements in the first year of adoption include similar reconciliation requirements.

What do I need to disclose now?

While NZ IFRS 18 will only be effective from 1 January 2027, reporting entities preparing financial statements that comply with Tier 1 for-profit Accounting Requirements will need to disclose information on the possible effect of this standard.

December 2023 and March 2024 Tier 1 reporters that have not yet authorised their financial statements should consider including this disclosure.

Where do I get more details?

For further insights refer to the following PwC in briefs:

[IFRS 18 - Key treasury topics for corporate entities](#)

[IFRS 18 - Insights for financial services companies](#)

For more information about NZ IFRS 18, please contact your usual PwC contact or one of the below financial reporting specialists.



Stephen Hogg

Partner, Auckland
stephen.c.hogg@pwc.com



Tiniya du Plessis

Accounting Advisory Services
Partner, Auckland
tiniya.b.du.plessis@pwc.com



Mariann Trieber

Accounting Advisory Services
Executive Director, Auckland
mariann.m.trieber@pwc.com



Lyndsay Taylor

Executive Director, Auckland
lyndsay.m.taylor@pwc.com



Sara Moonlight

Executive Director, Wellington
sara.x.moonlight@pwc.com

Appendix – Illustrative examples

1) Illustrative statement of profit or loss for a general corporate

Statement of profit or loss – general corporate (operating expenses by function)		
Line item	CU	Category
Revenue	X	Operating
Cost of goods sold	(X)	
Gross profit	X	
Selling expenses	(X)	
General and administrative expenses	(X)	
Research and development expenses	(X)	
Operating profit*	X	Required subtotal
Share of profit from associates and joint ventures accounted for using the equity method	X	Investing
Interest income from cash and cash equivalents	X	
Profit before financing and income tax*	X	Required subtotal
Interest expense on borrowings	(X)	Financing
Interest expense on other liabilities	(X)	
Profit before income tax	X	
Income tax expense	(X)	Income tax
Profit from continuing operations	X	
Loss from discontinued operations	(X)	Discontinued operations
Profit for the year *	X	Required subtotal

2) Illustrative statement of profit or loss for an insurer

Statement of profit or loss – insurer		
Line item	CU	Category
Insurance revenue	X	Operating
Insurance service expenses	(X)	
Net expenses from reinsurance contracts held	(X)	
Insurance service result	X	
Interest revenue calculated using the effective interest rate method	X	
Dividends and fair value changes on financial assets	X	
Credit impairment losses	(X)	
Finance expenses from insurance contracts issued	(X)	
Finance income from reinsurance contracts held	X	
Net financial result	X	
Other expenses	(X)	
Operating profit*	X	Required subtotal
Share of profit of associates and joint ventures accounted for using the equity method	X	Investing
Profit before financing and income tax*	X	Required subtotal
Interest expense on borrowings and pension liabilities	(X)	Financing
Profit before income tax	X	
Income tax expense	(X)	Income tax
Profit for the year *	X	Required subtotal

* Subtotal required by NZ IFRS 18 paragraph 69.

Appendix – Illustrative examples

3) Illustrative statement of profit or loss for an investment and retail bank

Statement of profit or loss – investment and retail bank		
Line item	CU	Category
Interest revenue calculated using the effective interest rate method	X	Operating
Interest expense	(X)	
Net interest income	X	
Fee and commission income	X	
Fee and commission expense	(X)	
Net fee and commission income	X	
Net trading income	X	
Net investment income, including cash and cash equivalents	X	
Credit impairment losses	(X)	
Employee benefits expense	(X)	
Depreciation and amortisation expenses	(X)	
Operating profit*	X	Required subtotal
Share of profit of associates and joint ventures	X	Non-main investing and financing
Interest expense on pension and lease liabilities	(X)	
Profit before income tax	X	
Income tax expense	(X)	Income tax
Profit for the year*	X	Required subtotal

* Subtotal required by NZ IFRS 18 paragraph 69. NZ IFRS 18 requires entities to present specified totals and subtotals: 'Operating profit or loss', 'Profit or loss' and 'Profit or loss before financing and income taxes', with some exceptions (for example, where a bank has financing as a main business activity and has made specific presentation choices).