#DIFFERENCE MAKERS

DRAFT HEADLINE EARNINGS CIRCULAR

BASIS OF CONCLUSIONS

Issued August 2026

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PREFACE

This Basis for Conclusions accompanies, but is not part of, the Headline Earnings Circular (the Circular). It summarises the considerations of the Accounting Practices Committee (APC) when developing the Circular.

The Circular has been issued by the South African Institute of Chartered Accountants (SAICA) at the request of the JSE Limited (JSE). The JSE Listings Requirements require the calculation of headline earnings and disclosure of a detailed reconciliation of headline earnings to the earnings numbers used in the calculation of basic earnings per share in accordance with the requirements of IAS 33 – *Earnings per Share*. Disclosure of headline earnings is not a requirement of International Financial Reporting Standards (IFRS).

SAICA acknowledges that headline earnings is only one possible measure of an entity's performance, and the disclosure of headline earnings may be made in addition to the presentation of revenue, expenses, gains and losses in accordance with IFRS. Furthermore, headline earnings is not a mechanism to use in order to adjust an entity's financial results for disagreements an entity might have with the application of IFRS, or to circumvent the correct accounting treatment.

SECTION H: BASIS FOR CONCLUSIONS

1. This section sets out the basis for conclusions in developing the rules for headline earnings. Circular 8/2007 was issued by SAICA as Exposure Draft 220 – *Headline Earnings,* at the request of the JSE, in December 2006, with a comment date of 12 March 2007. Paragraphs .09 to .28 of this section include a discussion of certain issues raised by the commentators to the exposure draft and the response to these issues.

2. Circular 3/2009 was issued by SAICA at the request of the JSE as Exposure Draft 265. Paragraphs .29 to .35 of this section also includes a discussion of items considered during the drafting of the revisions to Circular 8/2007 as now incorporated in Circular 3/2009. Paragraph .36 includes a discussion of the items considered in drafting the revisions to Circular 3/2009 which was re-issued as Circular 3/2012.

3. Circular 2/2013 was issued by SAICA for public comment in June 2013 at the request of the JSE as Exposure Draft 333/2013. Paragraphs .37 to .39 of this section, includes a discussion of the items considered in drafting the revisions to Circular 3/2012 as now incorporated in Circular 2/2013.

4. Circular 2/2015 was issued by SAICA for public comment in July 2015 at the request of the JSE as Exposure Draft 359/2015. Paragraph 40 of this section, includes a discussion of the items considered in drafting the revisions to Circular 2/2013 as now incorporated in Circular 2/2015.

5. Circular 4/2018 was issued by SAICA for public comment in December 2017 at the request of the JSE as Exposure Draft 383/2018. Paragraphs .41 to .44 of this section, include a discussion of the items considered in drafting the revisions to Circular 2/2015 as now incorporated in Circular 4/2018.

6. Circular 1/2019 was issued by SAICA for public comment in November 2019 at the request of the JSE as Exposure Draft 402/2019. Paragraphs .45 to .46 of this section, include a discuss ion of the items considered in drafting the revisions to Circular 4/2018 as now incorporated in Circular 1/2019.

7. Circular 1/2023 was issued by SAICA for public comment in September 2022 at the request of the JSE as Exposure Draft 405/2022. Paragraphs .53 to .59 of this section, include a discussion of the items considered in drafting the revisions to Circular 1/2021 as now incorporated in Circular 1/2023.

8. Circular 1/2026 was issued by SAICA for public comment in **13 August 2026** at the request of the JSE as **Exposure Draft 1/2026**. Paragraphs .62 to .72 of this section, include a discussion of the items considered in drafting the revisions to Circular 1/2023 as now incorporated in Circular 1/2026.

Distinction between remeasurements and operating/trading

9. To be meaningful, the P/E ratio should be based on an earnings number that reflects the underlying operating/trading performance of an entity and should be calculated consistently between entities and over time. Several developments in the financial world (for example, increased use and complexity of derivative instruments) and the consequential accounting treatment, as well as the approach of the IASB to focus on the statement of financial position, have, however, blurred the distinction between capital and income. These developments have also blurred the platform versus operating/trading distinction, developed in the original headline earnings formula of 1995, as contained in the SAICA Circular 7/2002, and make it increasingly difficult to apply the platform versus operating/trading principles consistently.

10. Recognition of changes in value (remeasurements in IASB terms) in profit or loss has increased as the IASB moves more to a fair value accounting approach. The increase in re-measurements increases the possibility of volatility of an entity's performance numbers. The exclusion of (most) remeasurements (other than those, for example, stemming from

operating/trading) parallels in most cases the original headline earnings distinction between platform and operating/trading. This provides ongoing justification for the original principle and validates the continued use of the currently published historic headline earnings data without interruption. This has significant value for time-series analysis, especially over several economic cycles.

11. In view of the mixed attribute (cost/fair value) model in IFRS, especially in IFRS 9 – *Financial Instruments*, the distinction between the platform and operating/trading mentioned above may sometimes be difficult to make. In some cases, this difficulty, and/or the practical considerations involved, may result in headline earnings being based on an accounting treatment that may appear contradictory to the headline earnings principle of distinguishing between the platform and operating/trading. Such imperfections have to be accepted if headline earnings is going to achieve the objective of creating a single earnings number that is consistently calculated.

Specific adjustments considered when issuing Circular 8/2007

12. Respondents to the SAICA headline earnings research undertaken in 2006 indicated a desire for the following issues to be addressed in a headline earnings revision, because of the problems these issues cause in practice:

    i. fair value adjustments;
    ii. foreign exchange gains and losses;
    iii. amortisation of intangible assets;
    iv. black economic empowerment (BEE) transactions;
    v. effect of straight-lining of operating lease payments; and
    vi. secondary tax on companies (STC) on dividends.

13. Items (i) to (iii) have been specifically dealt with in the rule table. This should ensure consistency of treatment. The initial recognition of items (iv) to (vi) is not a remeasurement and these items would therefore be included in headline earnings.

14. As the starting point for the calculation of headline earnings is the IAS 33 earnings number, items not recognised in this earnings number cannot be included in headline earnings. This would include gains on revaluation of property, plant and equipment and fair value gains or losses on available-for-sale financial assets that are recognised in other comprehensive income.

15. An argument was made during the comment process that in certain BEE transactions the IFRS 2 expense is part of the gain or loss on disposal of a business and should therefore be excluded from headline earnings. BEE credentials are capable of being obtained in a number of ways, including disposing of a business or issuing options or shares at a discount, and in many cases the legal form of the transaction is different from the economic substance. In addition, many transactions involve the receipt of services from BEE employees. In order to ensure consistent treatment of BEE transactions from a headline earnings perspective, the decision taken was to include the IFRS 2 charge in headline earnings, as other IFRS 2 charges are included in headline earnings.

The impact of accounting policy choices on headline earnings

16. The application of IFRS can result in different accounting treatments, depending on the accounting policies adopted and, in the case of financial instruments, the initial designation of such instruments. These choices should be borne in mind from an operating/trading versus platform point of view, as a specific accounting policy choice may imply a certain intention and has the potential to affect headline earnings differently. Accounting policy choices affect earnings, which affect the IAS 33 earnings per share and therefore headline earnings per share (as headline earnings is based on earnings used for earnings per share); these accounting policy choices cannot be "fixed" in the headline earnings calculation.

17. Examples of accounting policy choices that affect income include the initial designation of financial instruments in terms of IFRS 9 – *Financial Instruments*, which can result in re-measurements going initially to other comprehensive income as opposed to profit or loss. A further example arises under IAS 19 − *Employee Benefits*, where an entity can elect to recognise actuarial gains or losses within profit and loss or outside of profit or loss and in other comprehensive income.

18. The choice to take the actuarial gains or losses to profit or loss includes these gains or losses within headline earnings, while the choice to reflect them in other comprehensive income excludes them from headline earnings. Another example is the application of IFRS 6 − *Exploration for and Evaluation of Mineral Resources.* Some mining companies expense exploration and evaluation costs as incurred, which will include these costs within headline earnings, while others capitalise these costs, which will initially exclude these costs from headline earnings. The amortisation of these costs would be included in headline earnings.

Treatment of IAS 39 remeasurements

19. When dealing with IAS 39 remeasurements, there are practical difficulties in determining which remeasurements relate to the platform and which relate to operating/trading activities. The four options that were considered were:

    i. include all IAS 39 remeasurements (recognised in earnings[5]) in headline earnings;
    ii. exclude all IAS 39 remeasurements (recognised in earnings[5]) from headline earnings;
    iii. include all IAS 39 remeasurements (recognised in earnings[5]) in headline earnings, but
    iv. exclude all reclassification items other than cash-flow hedges; or
    v. exclude some IAS 39 remeasurements in headline earnings, based on management's intentions.

20. Options (i) to (iii) are essentially arbitrary rules, while option (iv) would allow entities to make their own distinction. While options (i) to (iii) each have their detractors, option (iv) is the most problematic, as it would not result in consistency between companies, which is one of the underlying objectives of headline earnings. This circular follows option (iii), which was considered to be the most objective and robust approach for achieving the purpose of headline earnings, and is also consistent with the approach adopted in Circular 7/2002.[6]

21. The decision was thus taken that the gains or losses recognised should be dealt with in accordance with the accounting treatment in the financial statements. If the adjustment or gain or loss is initially included in profit or loss, it should be included in headline earnings and vice versa.

22. The majority of respondents to the exposure draft agreed that option (iii) was the best way to address IAS 39 in headline earnings.

IAS 39 reclassified remeasurements

23. All IAS 39 reclassified remeasurements, other than those relating to cash-flow hedges, are excluded from headline earnings as they do not only relate to the current period. From the specific way that IAS 39 is drafted, remeasurements that relate to the platform of the entity are initially recognised in other comprehensive income. They are not initially recognised in profit or loss as they do not reflect the entity's underlying trading performance. For example, gains or losses on available-for-sale financial assets that are reclassified to profit or loss on disposal or impairment are excluded from headline earnings because all fair value gains and losses on available-for-sale financial assets are initially recognised directly in other comprehensive income, and therefore the reclassified amounts do not only reflect performance of the current period.

[5] As earnings is the starting point for headline earnings.

[6] Paragraph 22A of Circular 7/2002 stated that *"adjustments to the carrying amounts of financial instruments (whether the result of revaluation, impairment or amortisation) and gains or losses on the realisation thereof should be dealt with in accordance with the accounting treatment in the financial statements. If an adjustment or gain or loss is included in"* profit or loss *"it should be included in headline earnings, but otherwise excluded. In those instances where fair value adjustments of available-for-sale financial instruments are recognised in "*other comprehensive income*", but subsequently on disposal or impairment are "* reclassified to profit or loss, the reclassified *" amount is excluded from headline earnings."*
(Note: certain words within this quote from the 2002 circular were amended in order ensure alignment with the new terminology in IAS 1. The amended words are excluded from the inverted commas and are not in italics.)

24. The reclassification of cash-flow hedges, on the other hand, is included in headline earnings, as this remeasurement is only temporarily placed in other comprehensive income so that its recognition through profit or loss can be matched to the underlying related hedged item. Headline earnings adjustments can only be made for separately identifiable items. Therefore, while there may be an argument that some of the cash-flow hedges relate to items that form the platform of the business, since there is no requirement to disclose the reclassification adjustments separately per type of cash-flow hedge and given that most of the cash-flow hedges are likely to relate to items that are included in headline earnings, all reclassifications of cash-flow hedges are included in headline earnings.

Separately identifiable remeasurements

25. In some cases, the recognised remeasurement adjustments may include elements of both a platform and an operating/trading nature. Only remeasurements where the applicable IFRS Accounting Standards explicitly requires separate disclosure of the operating/trading and/or the platform portion of remeasurement in the underlying accounts of the entity/company/subsidiary/associate/ joint venture can be adjusted in headline earnings. To allow entities to determine subjectively which portion of a remeasurement relates to the platform would undermine the objective of headline earnings to ensure consistency across entities. The calculation of headline earnings must be robust and objective. Any voluntary disclosure of the components of a gain or loss, including disclosure of additional line items in the statement of profit or loss as required by IFRS 18 paragraph 24, will not affect the headline earnings treatment as set out in the rules table.

Format of the headline earnings reconciliation

26. Exposure Draft 220 raised the question of whether it was necessary to identify the tax and non-controlling interest for each remeasurement separately. Some respondents were concerned that four-column reconciliation would be too complex and confusing for investors. The suggestions was made that the reconciliation should just include the net amount for each reconciling remeasurement, but still include the detail of the total tax and non-controlling interest amounts attributable to all of the remeasurements.

On the other hand it was acknowledged that this detail was useful and in fact necessary to provide a logical flow between earnings and headline earnings. The decision was therefore taken, in trying to balance these two opposing views, to include the detailed, long-form reconciliation in annual financial statements, but to allow a short-form reconciliation to be provided on a net basis in the interim, preliminary, provisional and abridged reports.

27. The introduction of IFRS 18 and the consequential amendments arising from Circular 1/2026 removed the short-form reconciliation presentation and aligned the reconciliation disclosures to the disclosure requirements of IFRS 18 for management-defined performance measures, including the requirement to disclose the tax effects and amount attributable to NCI for each reconciling item.

The inclusion of a definition of "operating/trading" and "platform"

28. It was necessary to include a definition of "operating/trading" and "platform" in Circular 8/2007 as the meaning of the words "operating" and "capital" as defined in IFRS Accounting Standards did not meet the needs of headline earnings, as set out in the circular. The meanings of the words "operating" and "capital" as defined in IFRS are set out below.

29. IAS 7 − *Cash Flow Statements* defines *"operating activities"* as being *"the principal revenue-producing activities of an entity and other activities that are not investing or financing activities".*

30. The distinction for headline earnings is that some of the financing activities are included within the definition of operating/trading activities. IAS 7 defines *"financing activities"* widely as *"activities that result in changes in the size and composition of the contributed equity and borrowings of the entity".* Operating/trading activities include the costs associated with financing activities and the return on investments.

31. Circular 8/2007 uses the word "capital" in the context of non-operating/trading activities or the platform of an entity. This is not necessarily directly aligned with the definition of *"capital"* in terms of paragraph 4.57 of *The Conceptual Framework for Financial Reporting,* being:

- *"under a financial concept of capital, such as invested money or invested purchasing power, the net assets or equity of the entity. The financial concept of capital is adopted by most entities; or*
- *under a physical concept of capital, such as operating capability, the productive capacity of the entity based on, for example, units of output per day."*

Specific matters considered when issuing Circular 3/2009

32. IFRS 3 (as revised in 2008) introduces a change in the accounting for transaction costs. These are now expensed in profit or loss as opposed to being included in the purchase price. This item is clearly an expense and not a remeasurement and is therefore in headline earnings.

33. IFRS 3 (as revised in 2008) deals with the subsequent remeasurement of indemnification assets. These remeasurements have not been dealt with in the detailed rules table as they are not separately identifiable. They are therefore included in headline earnings.

34. With regards to IFRS 3 (as revised in 2008), some argued that any changes to the contingent consideration payable for an acquisition (which by definition are included remeasurements) should be excluded from headline earnings as this contingent consideration relates to amounts that are incurred in acquiring a business, which is not part of the normal operating/trading activities of an entity. Paragraph 58 (b) of IFRS 3 referred one to the relevant standard that should be applied for the subsequent measurement of any contingent consideration.

    It says that if it is a financial instrument and within the scope of IAS 39, it should be at fair value either through profit or loss or in other comprehensive income. In this case, the headline earnings rules for IAS 39 should be applied and the remeasurement is in headline earnings if the remeasurement is included in profit or loss, and by definition is not in headline earnings if in other comprehensive income. If it is not within the scope of IAS 39, it should be accounted for in accordance with IAS 37 or other IFRSs as appropriate. If such a liability were in the scope of IAS 37, again the headline earnings rule on IAS 37 would apply which rule requires that all remeasurements relating to IAS 37 liabilities are in headline earnings, as on the whole they relate to the trading or operating activities.

35. As a reminder, if a fair value adjustment relates to the facts and circumstances that exist at the acquisition date and that arise in the measurement period, the initial accounting will be adjusted accordingly. In this case the adjustment forms part of goodwill and will therefore not be in profit or loss unless an excess arises, which is specifically excluded from headline earnings. IFRS 3

does not permit an adjustment to the initial accounting, even during the measurement period (12 months from the date of acquisition), for any changes to the initial accounting that relate to events or conditions that occurred or arose after the acquisition date.

In this regard, the Basis for Conclusion of IFRS 3 paragraph BC357 states: "Except for adjustments during the measurement period to provisional estimates of fair values at the acquisition date, the boards concluded that subsequent changes in the fair value of a liability for contingent consideration do not affect the acquisition-date fair value of the consideration transferred. Rather, those subsequent changes in value are generally directly related to post-combination events and changes in circumstances related to the combined entity. Thus, subsequent changes in value for post-combination events and circumstances should not affect the measurement of the consideration transferred or goodwill on the acquisition date.

(The boards acknowledge that some changes in fair value might result from events and circumstances related in part to a pre-combination period. But that part of the change is usually indistinguishable from the part related to the post-combination period and the boards concluded that the benefits in those limited circumstances that might result from making such fine distinctions would not justify the costs that such a requirement would impose.)"

36. A question was raised in the context of IFRIC 16 − *Hedges of a Net Investment in a Foreign Operation* and the treatment of cash-flow hedges in terms of the rule table for IAS 39. Re-measurements resulting from the hedge of a foreign operation reclassified to profit or loss from other comprehensive income is out of headline earnings. If, however, there is a cash- flow hedge of a forecast acquisition or investment, that remeasurement will be in headline earnings. This may result in a situation where the cash-flow hedge treatment in headline earnings is not in fact matched to the headline earnings implication of the hedged item. There is no separate identification of these different types of cash-flow hedges and therefore all cash-flow hedges must follow the same treatment, being included remeasurements.

37. It is considered unusual that IFRIC 17 appears as a separate item in the rules table. The intention is to include the effects of an IASB interpretation in the section dealing with that specific IFRS. IFRIC 17, however, does not deal with one standard and this makes it necessary to include it separately in the rules table.

38. The calculation of a consistent P/E ratio is one of the main uses of the headline earnings figure. Given that, other than amendments for terminology changes in IAS 1, the definitions in Section B have not changed in this circular compared to Circular 3/2009, it was agreed that most appropriate way to ensure the consistent application of those principles to amendments to IFRS Accounting Standards issued after 30 June 2007 was to have an effective date as close as possible to the date of issue of the exposure draft. An entity that early adopted a new/revised IFRS Accounting Standards should have come to the same answer whether it applied this new circular or applied the definitions in the old circular to that new/revised IFRS Accounting Standard.

Specific matters considered when issuing Circular 3/2012

39. Following a request to urgently revise Circular 3/2009 in June 2012, a replacement Circular 3/2012 was issued to address two issues. The two revisions made to Circular 3/2009 addressed the following matters:

- inconsistencies in the treatment of the changes in the deferred tax balance resulting from the use of a different tax rate that relates to items that were excluded from headline earnings in the current or prior period(s); and
- to clarify how compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be accounted for in headline earnings.

Specific matters considered when issuing Circular 2/2013

40. Changes to Circular 3/2012 dealt largely with changes to the standards and interpretations issued since 2009. A few other changes were made in order to remove uncertainty that existed in the market place. See the detail of the specific changes in paragraphs .21 and .105.

41. A proposal was made to include a new rule to align the treatment of the remeasurement of deferred tax assets to the underlying asset such that if an item was previously excluded from headline earnings the remeasurement of its related deferred tax should also be excluded from headline earnings. Having given detailed consideration to the comments received on this proposed change during the consultation period it was decided not to implement the change at this stage and to leave the rule as it was, with any such remeasurement being included in headline earnings. Concern was expressed as to the practicalities of having to keep track, from period to period, of which asset each specific unrecognised deferred tax assets related to. Concern was also expressed as to the lack of guidance for dealing with the pro rata raising of deferred tax assets. An important consideration for headline earnings is the concept of separately identifiable remeasurements and this proposed change cuts directly into this concept. The treatment of the remeasurement of deferred tax assets, together with the application of IAS 12 to headline earnings as a whole, will be re-deliberated by SAICA sometime in the future.

42. Separately identifiable remeasurements in IFRICs/SICs should be treated in the same manner as they would under the IFRSs to which they relate. To clarify how the re- measurements through profit or loss should be treated in headline earnings, the detailed rules table includes relevant IFRICs/SICs with remeasurements not already included in the underlying standard.

Specific matters considered when issuing Circular 2/2015

43. Changes to Circular 2/2015 deal largely with changes to the standards and interpretations issued since 2013. Financial assets classified as at fair value through other comprehensive income consist of the following:

i. Equity investments that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies; and

ii. Other financial assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are s olely payments of principal and interest on the principal amount outstanding.

The proposed changes to Circular 2/2015 are to align the treatment of the remeasurements with the manner in which these instruments are accounted for in terms of IFRS 9. Fair value gains and losses on equity investments (paragraph .78(i) above) are not reclassified to profit or loss and hence would not be included in headline earnings.

Since financial assets classified as in paragraph .78(ii) above are held for dual purposes, which includes holding the financial asset to collect cash flows, it was proposed to include any such amounts reclassified to profit or loss in headline earnings at the date of any such reclassification. Further, any reclassified gain or loss represents a fair value gain or loss that will either reverse over the time to maturity (being the unwind of a discount or premium) or the recognition of a credit loss, both of which are recognised in the income statement.

It was hence proposed to align the treatment for such assets classified in paragraph .78(ii) above with the headline earnings treatment for financial assets that are held within a business model to collect contractual cash flows and for which similar amounts are included in headline earnings.

Specific matters considered when issuing Circular 4/2018

44. Changes to Circular 2/2017 deal largely with changes to the standards and interpretations issued from February 2015 to June 2017, excluding IFRS 17. IFRS 17 which becomes effective

for annual periods beginning on or after 1 January 2021 and will be considered in the next review of the Circular.

45. As IFRS 9 and IFRS 15 become effective for annual periods beginning on or after 1 January 2018, it was proposed that the rules relating to IAS 39, IAS 11 and IFRIC 18 should remain in this Circular (refer to paragraph .110 of this Circular) as these will still be applicable at the date of issue of this Circular for entities that have not yet adopted these IFRSs. Moreover, IFRS 9 provides entities with the option to continue to apply the hedge accounting requirements in IAS 39 after IFRS 9 becomes effective. The IFRS 9 rules have been revised to reflect the rules relating to hedge accounting where an entity has elected to apply the hedge accounting requirements in IAS 39.

46. IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. It was proposed that the rules relating to IAS 17 should remain in this Circular (refer to paragraph .110 of this Circular) as IAS 17 will still be applicable at the date of issue of this Circular for entities that have not yet adopted this IFRS.

47. Two drafting changes were also made. Firstly, changes were made to remove the symbols from the rule table that referenced changes made in 2009 and 2012. The explanation of those changes remains detailed in paragraphs 69 to 76 above, and the original rules are set out in section J below. Secondly, the effective date of certain IFRSs on the rule table, previously included in brackets has been removed as those standards are now effective.

Specific matters considered when issuing Circular 1/2019

48. Changes to Circular 4/2018 deal only with changing the rules pertaining to IFRS 16. The JSE and SAICA APC received a request for clarification on the treatment of penalties payable upon the termination of a lease that were not initially contracted for in the lease agreement. The request specifically related to the headline earnings treatment of such termination payments. The detailed rules relating to IFRS 16 – *Leases* in Section C of Circular 4/2018 indicated the "Remaining amount of the remeasurement of the lease liability to reflect changes to the lease payments recognised in profit or loss" in headline earnings and the "Net gain or loss arising from partial or full termination of lease" out of headline earnings. However, these two items are not *separately identifiable remeasurements* as defined as they are not explicitly required by IFRS 16 to be separately disclosed and therefore should not have appeared in the detailed rules table.

49. Headline earnings is defined (as per paragraph .14 above) as "an additional earnings number that is permitted by IAS 33. The starting point is earnings as determined in IAS 33, <u>excluding</u> *"separately identifiable remeasurements"* (as defined), net of related tax (both current and deferred) and related non-controlling interest, <u>other than</u> remeasurements specifically included in headline earnings *("included remeasurements"*, as defined)". Therefore, as the items are not *identifiable remeasurements*, they should remain in headline earnings. Accordingly, the detailed rules relating to IFRS 16 – *Leases* were updated to reflect this.

Specific matters considered when issuing Circular 1/2021

50. The JSE and SAICA APC received a request for clarification of the headline earnings treatment of negative variable rent that could be recognised in profit or loss when applying the amendment to IFRS 16 relating to Covid-19-Related Rent Concessions published during May 2020. Such negative variable rent is included in headline earnings as it is an included re-measurement (vi) as defined. IFRS 16, BC182 states *"The IASB decided that a lessee should measure lease liabilities similarly to other financial liabilities using an effective interest method, so that the carrying amount of the lease liability is measured on an amortised cost basis and the interest expense is allocated over the lease term."* Accordingly, the headline earnings treatment should be similar to the treatment of financial liabilities. The wording for the leases rule in headline earnings for lessees was also aligned to the wording used for financial instruments (IFRS 9) and revenue from contracts with customers (IFRS 15). This was done as

it was identified during the review that the previous wording was silent on the treatment of interest expense as a remeasurement.

51. Other amendments issued since Circular 1/2019 with remeasurements also included the amendments to IAS 16 relating to *Property, Plant and Equipment: Proceeds before Intended Use*. The headline earnings rules were updated in this revision to address the treatment thereof. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up (initial recognition) in terms of IAS 16 paragraph 74A(a) were already dealt with in the rules and no update was necessary. An additional note was added to the IAS 16 rules for the amounts of proceeds and cost included in profit or loss in accordance with paragraph IAS 16 paragraph 20A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost. IAS 16 paragraph 20A states "items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2." Accordingly, the proceeds and costs are to be dealt with in accordance with the applicable standards for headline earnings purposes.

52. Other editorial changes included deleting references to IAS 39 where IFRS 9 replaced the previous principles and adding a rule for IFRIC 19 to be consistent with the other IFRICs in the table. The rules for IFRIC 19 are consistent with the rules for financial instruments.

Specific matters considered when issuing Circular 1/2023

53. The SAICA APC undertook an exercise to review amendments to IFRS Standards between May 2020 to May 2022 to consider whether any of these amendments would have a headline earnings impact. Since the effective date of IFRS 17 had been deferred to 1 January 2023, the Standard had not yet been considered since the 2018 review (as indicated in paragraph .84 above), and therefore this review also considered the headline earnings impact of IFRS 17.

54. None of the amendments to IFRS Standards issued by the IASB during the period May 2020 to May 2022 were identified as having a headline earnings impact.

55. IFRS 17 was originally issued by the IASB in 2017 and replaces IFRS 4 with effect from 1 January 2023. The SAICA APC had previously concluded that specific changes in the carrying values of assets and liabilities arising from the application of IFRS 4 relate 'to the operating/trading activities of the entity' and are consequently included in the calculation of headline earnings as 'included remeasurements'. This would be the case for most insurance companies which issue insurance contracts in the course of their ordinary business activities.

56. IFRS 17 impacts the accounting treatment for contracts in the scope of the Standard, but does not change the nature of operating and trading activities of the entity. Therefore changes in the carrying values of the assets and liabilities within the scope of IFRS 17, that are recognised in profit or loss when the remeasurement occurs or subsequently, should be viewed as 'included remeasurements' for the purposes of calculating headline earnings. Re-measurements of re- insurance contracts held should also be viewed as 'included re-measurements' when calculating headline earnings. The disclosure requirements of IFRS 17 should result in a broader range of items being considered as 'separately identifiable re-measurements' as compared to its predecessor, IFRS 4.

57. However, because the scope of IFRS 17 applies to all entities which issue insurance contracts, and is not necessarily limited to insurance companies which issue insurance contracts as part of their operating/trading activities, the SAICA APC was concerned that companies that may issue insurance contracts infrequently or on an ad hoc basis may consider the application of the IFRS 17 rule, to not apply to them, if the insurance contract is not considered to relate to the operating/trading activities of the entity (included re- measurement (i) as defined).

58. The SAICA APC was of the view that, even for non-insurers, a remeasurement arising from an insurance contract within the scope of IFRS 17 would usually be considered operational or trading in nature, even if the entity issuing the insurance contract is not an insurance company that issues such contracts as part of its normal business activities.

59. To support the objective of consistent application as described in paragraphs .18 and .19 of the Circular, the SAICA APC decided to add a new included remeasurement (vii) that would result in consistent calculation of headline earnings for all companies that issue insurance contracts, regardless of the specific business activities of the entity.

60. The SAICA APC noted the IFRS 17 consequential amendments to paragraph 29A of IAS 16. An entity shall apply these amendments when it applies IFRS 17. To ensure alignment between included remeasurements on insurance contracts and investment contracts with discretionary participation features in the scope of IFRS 17 and related fair value gains or losses on owner-occupied property measured at fair value in terms of IAS 16 paragraph 29A, the SAICA APC added an included remeasurement for the related fair value gains or losses on owner-occupied properties measured at fair value in the scope of IAS 16 paragraph 29A to the rules table in paragraph 21 of the circular. While the owner-occupied property is included in the scope of IAS 16 paragraph 29A and is measured at fair value, the fair value gains or losses are included remeasurements.

61. The SAICA APC noted that the scope of the amendments to paragraph 29A of IAS 16, includes financial instruments in the scope of IFRS 9. These amendments should be applied from 1 January 2023. To ensure alignment between included remeasurements on financial instruments in the scope of IFRS 9 and related fair value gains or losses on owner-occupied property measured at fair value in terms of IAS 16 paragraph 29A, the SAICA APC added an included remeasurement for the related fair value gains or losses on owner-occupied properties measured at fair value in the scope of IAS 16 paragraph 29A to the rules table in paragraph 21 of the circular. This included remeasurement should be applied similarly to the included remeasurement stated in paragraph 60 of this circular.

62. The SAICA APC noted the IFRS 17 consequential amendments in paragraph 32B of IAS 40. The SAICA APC considered whether included remeasurements similar to those mentioned in paragraph 60 and 61 of the circular should be added for investment properties in the scope of IAS 40 paragraph 32B that are measured at fair value. The SAICA APC noted that such fair value gains or losses are not separately identifiable remeasurements and should not be included in headline earnings.

63. The SAICA APC noted the consequential amendments to paragraph 33A of IAS 32. The SAICA APC noted that remeasurements on equity instruments included in the scope of IAS 32 paragraph 33A are covered by the rules table for IFRS 9.

Specific matters considered when issuing Circular 1/2026

64. The SAICA APC undertook an exercise to review amendments to existing IFRS Accounting Standards and new IFRS Accounting Standards issued between May 2022 to July 2026 to consider whether any of these changes would have a headline earnings impact.

65. Of the amendments to existing Standards, none of the changes were found to have any headline earnings impact.

66. IFRS 18 – *Presentation and Disclosure in Financial Statements* was issued by the IASB in April 2024, replacing IAS 1 when it becomes effective. IFRS 18 introduced new presentation and disclosure requirements for management-defined performance measures. A management-defined performance measure is a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a

whole and which is not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.

67. Because headline earnings is a subtotal of income and expenses representing a non-IFRS measure of financial performance, the SAICA APC considered whether headline earnings would meet the definition of a management-defined performance measure in terms of IFRS 18. In its deliberations, the SAICA APC observed that headline earnings would not always be a management-defined performance measure in all cases. The SAICA APC believes that this would depend on the extent to which management of an entity comments on its headline earnings per share (and, by implication, headline earnings) in commentary outside the financial statements to explain the financial performance of the entity. For entities that merely disclose the number in the financial statements to comply with the JSE listings requirements, with no further commentary on or analysis of the number to explain it as a measure of performance at all, these entities could rebut the presumption that subtotal of income and expenses communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole in terms of paragraphs 119-120 (and supported by paragraph B129) of IFRS 18. In the circumstances where the presumption has been rebutted, headline earnings would not be a management-defined performance measure, nor would it be disclosed as such.

68. The outcome of the preceding paragraph has further implications for the disclosure of headline per share within the financial statements. Prior to the issuance of IFRS 18, IAS 33 paragraph 73 permitted disclosure of non-IFRS components of comprehensive income per share within the notes to the financial statements. However, as a consequential amendment to IAS 33 resulting from the issuance of IFRS 18, paragraph 73 was deleted and a new paragraph 73B was added limiting the disclosure of non-IFRS per share measures to management-defined performance measures as defined by IFRS 18. The result of these amendments is that, in order to comply with IAS 33, only entities which have determined that headline earnings is a management-defined performance measure will be permitted to disclose headline earnings per share in their financial statements. For entities for whom headline earnings is not a management-defined performance measure, disclosure of headline earnings per share within the financial statements is not permitted.

69. A further consequential amendment from the issuance of IFRS 18 was made to IAS 34 Interim Financial Statements. The amendments to IAS 34 require any disclosure of management-defined performance measures in the condensed financial statements to comply with the disclosure requirements of IFRS 18 paragraphs 121-125. This means that the previous option for entities to provide a short form reconciliation of headline earnings in the condensed provisional, abridged or interim financial statements would no longer comply with the requirements of IAS 34 read with IFRS 18. Accordingly, the SAICA APC removed the option for a short form reconciliation to be presented in order to allow for comparability of the headline earnings reconciliation between entities for whom headline earnings is a management-defined performance measure and those entities for whom it is not.

70. The previous circular did not require the income tax effects and amounts attributable to non-controlling interests for each excluded remeasurement to be individually disclosed in the long form reconciliation, instead requiring the presentation of both a gross and a net column, from which these components could be derived by deduction. Because IFRS 18 requires the income tax effects and non-controlling interests for each reconciling item to be separately disclosed, the disclosure requirements have been aligned for consistency for all entities to present these separately.

71. In response to these changes, the SAICA APC amended the requirements for disclosure of headline earnings and headline earnings per share accordingly:

i. All entities will be required to disclose headline earnings in their financial statements and provide the reconciliation of profit or loss attributable to ordinary shareholders to headline earnings according to the requirements of IFRS 18 paragraph 123. For entities that have rebutted the presumption that headline earnings communicates to users of financial statements management's view of an aspect of the financial performance of the entity as a whole, the disclosure requirements of IFRS 18 paragraph 123(a) will not apply. Instead, such entities should disclose this fact.

ii. For entities for whom headline earnings is a management-defined performance measure, these entities may continue to disclose the headline earnings per share and diluted headline earnings per share in accordance with the requirements of IAS 33 paragraph 73C.

iii. For entities for whom headline earnings is not a management-defined performance measure, these entities will be required to disclose headline earnings per share and diluted headline earnings per share in the financial statements but outside of the information on which the auditor issues their audit opinion, as required by the JSE Listings requirements section 11.

72. IFRS 19 *Subsidiaries without Public Accountability: Disclosures* was issued by the IASB in May 2024 to specify the disclosure requirements that an eligible subsidiary is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards. The SAICA APC was of the view that an eligible subsidiary in the scope of IFRS 19 would unlikely report HEPS. However, some eligible subsidiaries may nevertheless elect to apply the circular voluntarily. The SAICA APC decided to clarify that, if an eligible subsidiary voluntarily applies the circular to report headline earnings, it would be expected to apply the circular the consistently with the full disclosure requirements of IFRS Accounting Standards, i.e., applying the rules as if the eligible subsidiary was not applying IFRS 19.

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