

9 September 2026

International Accounting Standards Board
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Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: MANAGEMENT-DEFINED PERFORMANCE MEASURES—HYPOTHETICAL INCOME AND EXPENSES (IFRS 18)

In response to your request for comments on Tentative Agenda Decision: Management-defined Performance Measures—Hypothetical Income and Expenses (IFRS 18), attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

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Chairperson: APC

Mulala Ratshitanga
Lead: Financial Reporting

Cc: Kedibone Sono
Head: Financial Reporting

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Paragraph 117 of IFRS 18 defines a management-defined performance measure as ‘a subtotal of income and expenses that:

- a. an entity uses in public communications outside financial statements;
- b. an entity uses to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole; and
- c. is not listed in paragraph 118 [a list of subtotals of income and expenses that are not management-defined performance measures], or specifically required to be presented or disclosed by IFRS Accounting Standards.’

The Committee received a request asking whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure in IFRS 18.

Fact pattern

The request describes hypothetical income and expenses as income and expenses that an entity has not recognised and will never recognise in its statement of financial performance applying IFRS Accounting Standards.

The request asks whether, as set out in paragraph 117 of IFRS 18, a performance measure that includes such hypothetical income and expenses:

- a. can be a subtotal of income and expenses; and
- b. must faithfully represent an aspect of the financial performance of the entity as a whole.

Applying the requirements in IFRS 18

The Committee observed that to be considered a management-defined performance measure, a subtotal of income and expenses must, amongst other things, be used by an entity in public communications outside financial statements.

Subtotal of income and expenses

Paragraph 117 of IFRS 18 states that a ‘management-defined performance measure is a subtotal of income and expenses...’. The Committee observed that this paragraph contains no restrictions on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure. Consequently, this paragraph does not restrict an entity from including income and expenses that are not, and will not, be recognised in the entity’s statement of financial performance applying IFRS Accounting Standards.

Paragraph BC357 of the Basis for Conclusions accompanying IFRS 18 explains that the IASB decided to place no specific restriction on how an entity calculates a subtotal of income and expenses that is a management-defined performance measure because such restrictions might prevent an entity from disclosing measures that users of financial statements find useful.



The Committee therefore concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses in accordance with paragraph 117 of IFRS 18.

Faithful representation

In considering faithful representation, an entity assesses whether information disclosed in financial statements faithfully represents what the information purports to represent.

The objective of disclosures about management-defined performance measures—outlined in paragraph 121 of IFRS 18—includes providing information to help a user of financial statements understand the aspect of financial performance that, in management’s view, is communicated by a management-defined performance measure. Therefore, when considering whether information disclosed about management-defined performance measures faithfully represents what it purports to represent, the Committee observed that the phrase ‘management’s view of an aspect of the financial performance of the entity as a whole’ in paragraph 117 of IFRS 18 describes the information a management-defined performance measure purports to represent. In other words, ‘an aspect of the financial performance of the entity as a whole’ should not be read independently of ‘management’s view’.

As explained in paragraph BC360 of the Basis for Conclusions accompanying IFRS 18, in the context of management-defined performance measures, faithful representation does not provide information about whether a measure is a ‘good’ or ‘bad’ measure.

Conclusion on applying IFRS 18

The Committee concluded that a performance measure that includes hypothetical income and expenses can be a subtotal of income and expenses and can faithfully represent what it purports to represent—that is, management’s view of an aspect of financial performance of the entity as a whole.

If the performance measure meets all the relevant criteria in paragraph 117 of IFRS 18, that performance measure is a management-defined performance measure and the entity is required to apply paragraphs 121–125 of IFRS 18 to disclose information in its financial statements about that management-defined performance measure. These include requirements to, for example, label and describe a management-defined performance measure ‘in a clear and understandable manner that does not mislead users of financial statements’ (paragraphs 123 of IFRS 18). The objective of the disclosures for management-defined performance measures, outlined in paragraph 121 of IFRS 18, is for an entity to provide information to help a user of financial statements understand:

- a. the aspect of financial performance that, in management’s view, is communicated by a management-defined performance measure; and
- b. how the management-defined performance measure compares with the measures defined by IFRS Accounting Standards.



Conclusion

The Committee concluded that the principles and requirements in IFRS 18 provide an adequate basis for an entity to determine whether a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measure. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

SPECIFIC COMMENTS

We note the Committee's conclusion that a performance measure that includes hypothetical income and expenses can meet the definition of a management-defined performance measures (MPM), provided it satisfies the criteria set out in paragraph 117 of IFRS 18. We note the observation that paragraph 117 does not restrict an entity from including income and expenses that are not, and will not, be recognised in the statement of financial performance applying IFRS Accounting Standards.

While we understand the basis for this conclusion, we note that the outcome results in a very broad application of the MPM requirements. As drafted, paragraph 117 focuses on whether a measure communicates management's view of an aspect of the financial performance of the entity as a whole and does not anchor a MPM to amounts recognised in accordance with IFRS Accounting Standards. Consequently, a wide range of measures, including measures incorporating hypothetical income and expenses, may potentially meet the definition of an MPM.

We therefore question whether the breadth of this outcome is consistent with the IASB's original intention when developing the MPM requirements. Although we agree that the requirements, when read plainly, support the Committee's conclusion, it is unclear whether the Standard intended to permit such a broad range of hypothetical or non-recognised measures to fall within the scope of MPM disclosures.

In practice, stakeholders have observed preparers considering a wide spectrum of performance measures that include adjustments or amounts that are not recognised in accordance with IFRS Accounting Standards. Accordingly, the issue is not merely theoretical. Given the diversity of measures being used in practice, additional commentary on the boundaries of what may constitute a hypothetical measure, or on the characteristics that distinguish an acceptable MPM from one that would not meet the requirements of paragraph 117, would be beneficial.

Furthermore, while the agenda decision emphasises that disclosures relating to MPMs must faithfully represent what they purport to represent and must be labelled and described in a clear and understandable manner that does not mislead users, faithful representation in this context does not assess whether a measure is a "good" or "bad" measure. We therefore believe that stakeholders may still have questions regarding the practical limits of measures that can qualify as MPMs.