

September 10, 2026

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Tentative Agenda Decision: Management-Defined Performance Measures – Hypothetical Income and Expenses (IFRS 18 Presentation and Disclosure in Financial Statements)

Dear Committee Members:

CFA Institute¹ appreciates the opportunity to comment on The IFRS Interpretations Committee's (IFRS IC) [*Tentative Agenda Decision: Management-Defined Performance Measures \(MPMs\)- Hypothetical Income and Expenses*](#).

CFA Institute is providing comments consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protection. An integral part of those efforts is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are decision-useful, transparent and reliable. Our advocacy position is informed by our members, who invest both locally and globally.

Our Position and Recommendation: Do Not Finalize, Refer the Issue to the IASB

We do not agree with the tentative agenda decision. In our view, a management-defined performance measure (MPM) that includes hypothetical income or expenses arising from transactions or events that did not occur – and that the entity has not recognized and will never recognize – is not a "subtotal of income and expenses" for the purpose of Paragraph 117 of IFRS 18. We agree with View A described in the [staff paper](#).

Accordingly, we ask the IFRS IC to withdraw or revise the tentative agenda decision and conclude that a measure containing such hypothetical amounts does not meet the definition of an MPM. If the IFRS IC believes IFRS 18 should include such amounts, it should refer the matter to the IASB for narrow-scope

¹ With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 200,000 members, as well as 157 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org, follow us on LinkedIn, or subscribe to our YouTube channel.



standard-setting before IFRS 18 becomes effective. Extending MPMs in this way would materially change their definition and is a standard-setting issue, not an interpretation issue.

MPMs Were Understood to Be a Narrow Class of P&L Subtotals

We discussed this issue with IASB staff and Board members in 2018 and 2019 while the definition was being developed because we were concerned that the term was insufficiently descriptive. Specifically, we discussed this issue with an IASB member at a presentation at the 2018 Annual Meeting of the American Accounting Association.

Having just completed two papers on alternative performance measures (APMs) – where parsing the definition of APMs, non-GAAP measures and key performance indicators (KPIs) was challenging – we felt there was a high likelihood that this term (MPM) would be misinterpreted as an APM. Our concern was that without sufficient description, MPMs could be interpreted to encompass a whole variety of measures including hypothetical amounts (such as covered by this agenda decision) or a plethora of management performance measures that had nothing to do with income statement measures (e.g., cash flow performance measures). Such measures are APMs. We were assured that our concern was overstated and that MPMs related only to “subtotals of existing profit and loss amounts.”

Our [October 2020 comment letter on the General Presentation and Disclosures Exposure Draft](#) highlights this previously stated concern. See remarks in the summary table on Page 2 of the letter as well as the more comprehensive discussion of MPMs on Pages 3 and 4. On Page 4 of the letter, we state that MPMs should be renamed to Management’s Alternative P&L Subtotals (MAPLS) to avoid confusion. Such language is excerpted below:

MPMs Should Be Renamed to Avoid Confusion with APMs And Non-GAAP Measures

We understand MPMs to consist of various subtotals of income and expenses that are not currently mandated by IFRS. If a metric is determined to be an MPM, it must be reconciled to the most directly comparable total or subtotal specified by IFRS standards, and disclosures regarding their definition and relevance are required in the footnotes.

In contrast, alternative performance measures (APMs) provided by management comprise a wide variety of metrics such as ratios or alternative measures that do not necessarily have an anchor or relationship either to operating profit or loss or even, necessarily, to IFRS – for example, same store sales, number of clicks for a website, or various ESG metrics. APMs, therefore, encompass a much wider range of metrics than MPMs.

MPMs as defined in the proposal also appear to be a narrow subset of what are known in the US as non-GAAP measures, which are loosely defined as a measure that excludes (or includes) amounts from the most directly comparable measure calculated in accordance with GAAP. MPMs, on the other hand, are limited to subtotals of income and expenses, each of which are derived from the statement of profit or loss that is prepared in accordance with IFRS. Other financial measures (such as adjusted revenue or return on capital employed) are not MPMs and would not be included in the proposed disclosure.

Given the intended narrow scope of MPMs, we recommend re-naming these measures to a more descriptive term such as Management’s Alternative P&L Subtotals (MAPLS) or Alternative Earnings Measures (AEMs), to avoid their being confused by users of financial statements with the broader categories of APMs and non-GAAP measures. A more descriptive term should be used in order to readily convey to users of financial statements why these metrics consist only of subtotals of income and expense items, and why they do not include revenue-only measures such as adjusted revenues, or other metrics such as ROE. In addition, we believe the Board should provide greater clarity in the final standard

regarding the purpose of MPMs, so that users clearly understand how they fit into the overall framework of financial metrics.

Our understanding, informed by those discussions, was that the words "subtotal of income and expenses" confined MPMs to alternative P&L subtotals; they were not intended to import the wider universe of pro forma, hypothetical or other alternative measures into the financial statements. The tentative agenda decision highlights – and exacerbates – precisely the scope confusion we warned could arise.

We supported MPMs because they would allow management to communicate alternative subtotals of income and expenses in a disciplined manner, accompanied by reconciliation to an IFRS-specified total or subtotal and disclosure in a single note subject to audit. We would not have supported the inclusion of hypothetical amounts in the financial statements as while the mathematics of the calculation and related disclosures could be audited, the underlying counterfactual cannot be verified as a transaction or event that actually occurred. Further, our research suggests many investors do not want management to be constrained by measures that would require them to be audited.

A Hypothetical Measure Is Not a Subtotal

The tentative agenda decision treats the absence of an express restriction on the calculation of an MPM as permission to include amounts arising from any hypothetical scenario. We do not believe that reading gives effect to the word "subtotal" in Paragraph 117.

A subtotal presupposes a population of constituent amounts. For an MPM, that population must remain anchored to the entity's income and expenses and to its statement of profit or loss. Management may present income and expense items differently, but an amount constructed solely from a transaction or event that never occurred is not a constituent amount capable of being subtotaled. A calculation does not become a subtotal merely because management labels its inputs "income" or "expenses". Such hypothetical amounts represent a different set of numbers, not a subtotal of existing numbers. Use of the term subtotal is therefore inaccurate. These are alternative hypothetical measures of profit and loss.

The Conceptual Framework does not support the broader conclusion. Its definitions of income and expenses refer to increases or decreases in assets or liabilities that result in changes in equity. There is an important distinction between an economic phenomenon that occurred but is presented differently under IFRS, and a hypothetical transaction or event that did not occur at all. In the latter case, no increase or decrease in the entity's assets or liabilities arose from that hypothetical event.

In our view, the tentative agenda decision does not adequately address this distinction.

BC357 And Paragraph B134(b) Do Not Remove the Boundary

We also do not believe Paragraph BC357 supports the proposed conclusion. The IASB's decision not to prescribe how an entity calculates an MPM allowed flexibility within the category of a "subtotal of income and expenses". It did not eliminate the defined boundary – that being the existing components of net income or net profit and loss which could be subtotaled differently. The phrase "how an entity calculates" presupposes that the resulting measure is capable of being characterized as a subtotal; it cannot be read to include new amounts such as hypothetical amounts.

Similarly, Paragraph B134(b), which addresses an MPM calculated using accounting policies that differ from those required or permitted by IFRS Accounting Standards, should not be extended to wholly hypothetical events. Applying a different recognition or measurement policy to an actual transaction is conceptually different from estimating income or expenses from a transaction, condition or alternate history that did not exist. The former may remain anchored to the entity's actual performance; the latter is a pro forma or hypothetical construct. That said, we are not supportive of such measures being included as MPMs either as they are not different subtotals of profit or loss.

Faithful Representation Does Not Cure the Scope Problem

Because these measures – in our view – do not meet the definition of an MPM at the "subtotal" threshold, it is unnecessary to determine whether they faithfully represent management's view of an aspect of financial performance. The faithful-representation analysis in the tentative agenda decision cannot convert a measure that is outside the defined population into an MPM.

The proposed analysis also exposes the breadth and potentially significant effects of the Committee's proposed interpretation. If faithful representation means only that the information faithfully depicts management's own view, a broad range of internally coherent hypothetical measures could pass that test, irrespective of whether it depicts the entity's performance for transactions and events that occurred during the period. The requirement in Paragraph 123 that the measure be labelled and described in a manner that does not mislead users is valuable but labelling and reconciliation are disclosure safeguards; they are not substitutes for applying the definition in Paragraph 117.

Investor Protection and Auditability Concerns

The proposed tentative agenda decision also raises significant verifiability and auditability concerns about amounts included in the audited notes to the financial statements.

An auditor may be able to test the arithmetic, management's methodology and certain inputs used in a hypothetical calculation; however, this is not the same as obtaining persuasive audit evidence that income or expenses of this hypothetical nature would have arisen in an alternate scenario involving transactions or events that never occurred. The more subjective the hypothetical measure, the greater the risk that users infer a level of assurance from its inclusion in audited financial statements that the underlying construct cannot support.

The examples in the [staff paper](#) illustrate that risk. Estimating net profit as if a pandemic or geopolitical conflict had not occurred requires management to construct an alternate path for demand, pricing, supply chains, financing and costs. Those assumptions interact and are not directly observable. Likewise, presenting combined results as though an acquisition had occurred at the beginning of the period introduces a pro forma history rather than a subtotal of the reporting entity's actual income and expenses for that period. These may be measures management wishes to communicate, but that does not – in our view – make them MPMs under IFRS 18.

Conclusion

In our view, the tentative agenda decision would materially broaden MPMs beyond the alternative profit and loss subtotals contemplated when IFRS 18 was developed. It would permit hypothetical amounts generated from events that never occurred to enter audited financial statements under an MPM label, notwithstanding that such amounts are not constituents of the entity's reported financial performance. We do not believe that outcome is supported by the term "subtotal of income and expenses", the Conceptual Framework or the objective of the MPM requirements.

We also note that Paragraph B116 excludes asset, liability, equity, ratio, cash flow, liquidity, and nonfinancial measures from the definition of MPMs. We find it unusual that IFRS 18 would exclude liquidity or cash flow measures from the definition of MPMs – measures that are, from an investor perspective, some of the best measures of company performance – and for the IFRS Interpretations Committee to conclude that inclusion of performance measures based upon hypothetical amounts are more representationally faithful or useful to investors. In our view the tentative agenda decision does not establish a sufficiently clear explanation regarding why cash measures of performance should be excluded while hypothetical measures are appropriate. Further, the tentative agenda decision does not establish boundaries for hypothetical measures of profit or loss.

We believe the appropriate course for the IFRS IC is to withdraw the tentative agenda decision and conclude that a measure containing such hypothetical amounts does not meet the definition of an MPM or refer the matter to the IASB for narrow-scope standard-setting before IFRS 18 becomes effective. Extending MPMs in this way would, in our view, materially change their definition and is a standard-setting issue, not an interpretation issue.

Thank you for your consideration of our views. We would welcome the opportunity to discuss our response. If you have questions or seek further elaboration, please contact Sandra J. Peters at sandra.peters@cfainstitute.org or Manoj Mahanama at manoj.mahanama@cfainstitute.org.

Sincerely,



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