XRB Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

NZ IFRS 18 Benefits and Costs Summary

Mandatory from 1 January 2027

The application of NZ IFRS 18 *Presentation and Disclosure in Financial Statements* will result in both benefits and costs for New Zealand stakeholders. The key benefits and potential costs are summarised below.

Benefits

Improved information about financial performance

New subtotals for 'operating profit or loss', and 'profit or loss before financing and income taxes', and new categories of income and expenses within the statement of profit and loss, will provide consistently defined and comparable information to investors about an entity's performance and give investors a consistent starting point for their own analyses.

Comparability of financial information

New principles around the grouping and labelling of information, new required subtotals and categories in the statement of profit or loss and disclosure requirements for management-defined performance measures (MPMs) will support understandability and comparability of information – either across entities, between reporting periods of the same entity, or both. Changes to the classification of interest and dividend cash flows will also make the statement of cash flows more comparable across entities.

Transparency of alternative performance measures

New disclosure requirements for MPMs will help entities communicate their performance to investors, and help investors understand the entity's performance better. The inclusion of MPMs in the financial statements will make it easier for investors to access complete information about an entity's financial performance.

Costs *

Potential costs for entities

Entities may incur both initial and ongoing costs for changing processes around preparing financial statements, determining main business activities, tracking underlying items giving rise to foreign exchange differences, training personnel and communicating changes to internal and external parties.

Entities may also incur costs to prepare MPM disclosures and reconciliations and ensure these are complete. There may also be costs in applying the aggregation and disaggregation principles and presenting operating expenses in a structure which provides useful information to stakeholders.

Potential costs for investors

Investors may incur costs to adjust their models and methods of analysis to the new structure of the statement of profit or loss, and the additional information provided under NZ IFRS 18. This may also create costs when analysing long-term trend information where historical information may need to be adjusted.

Potential costs for other stakeholders

Regulators and auditors may incur costs to develop resources and procedures to regulate and audit the new requirements – particularly around MPMs, which may require consideration of a company's internal controls over the completeness and accuracy of MPM disclosures.

** This list of potential costs is not intended to be exhaustive or complete.*

Other Effects

Effects on digital reporting – NZ IFRS 18 will impact on digital taxonomies with new data points, and result in longer term standardisation and comparability of key financial performance metrics provided directly from entities.

Effects on contracts, agreements and compensation – Entities may need to reconsider existing banking / loan agreements, and management remuneration polices, where the new NZ IFRS 18 disclosures and definitions impact on balances within the financial statements used in these contracts, agreements and policies.

For more resources, refer to the XRB NZ IFRS 18 webpage

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