

# HKFRS 18 NAVIGATOR

## MANAGEMENT-DEFINED PERFORMANCE MEASURES

In prior HKFRS 18 Navigator issues, we introduced the key changes to the statement of profit or loss under HKFRS 18 *Presentation and Disclosure in Financial Statements*. Building on this foundation, we now turn to another significant aspect of the Standard — **management-defined performance measures** (MPMs). In this issue, we explore the identification of MPMs, the related disclosure requirements and key practical implications.

### WHAT IS A MANAGEMENT-DEFINED PERFORMANCE MEASURE?

Entities may present various non-GAAP measures. Not all such measures qualify as MPMs. Under HKFRS 18, an MPM is defined as a measure that meets **all three** of the following criteria, regardless of whether it is presented in the statement of profit or loss:

1. a subtotal of income and expenses other than those specified by HKFRS Accounting Standards;
2. used in public communications outside financial statements; and
3. used to communicate to users of financial statements management’s view of an aspect of the financial performance of the entity as a whole.

#### 1 SUBTOTALS OF INCOME AND EXPENSES

To qualify as an MPM, a measure must first be a **subtotal of income and expenses**. The table below illustrates examples of different types of measures that an entity may have and which of these measures meet the definition of an MPM.

Performance measures			
Financial performance measures			Non-financial performance measures
MPMs	Subtotals of income and expenses	Other measures that are not subtotals of income and expenses	
		HKFRS Accounting Standards specified	
For example: <ul style="list-style-type: none"> <li>• Adjusted profit or loss</li> <li>• Adjusted operating profit</li> <li>• Adjusted EBITDA</li> </ul>	For example: <ul style="list-style-type: none"> <li>• Operating profit or loss</li> <li>• Subtotals of income and expenses listed in paragraph 118 of HKFRS 18</li> </ul>	For example: <ul style="list-style-type: none"> <li>• Subtotals of <b>only</b> income or <b>only</b> expenses</li> <li>• Measures of assets or liabilities</li> <li>• Financial ratios<sup>1</sup></li> <li>• Measures of cash flows</li> </ul>	For example: <ul style="list-style-type: none"> <li>• Number of customers</li> <li>• Customer satisfaction score</li> <li>• Store surface</li> </ul>

<sup>1</sup> The numerator or denominator in a financial ratio might be an MPM if they meet the definition of an MPM.

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### 2 PUBLIC COMMUNICATIONS

To qualify as an MPM, a subtotal of income and expenses must be used by the entity in public communications outside the financial statements. HKFRS 18 provides examples of communications that are considered public communications, as well as those that are not, as illustrated below.

Examples of public communications	Excluded from public communications
<ul style="list-style-type: none"> <li>• Management commentary</li> <li>• Press releases</li> <li>• Investor presentations</li> </ul>	<ul style="list-style-type: none"> <li>• Oral communications</li> <li>• Written transcripts of oral communications</li> <li>• Social media posts</li> </ul>

Moreover, the MPM must relate to the same reporting period as the financial statements. For example, a subtotal of income and expenses relating to interim financial statements, but not to the annual financial statements, can only be an MPM in the interim financial statements, and vice versa.

An entity is not required to include a measure identified in the prior period as an MPM if evidence indicates that it will no longer be included in the public communications for the current reporting period.

### 3 COMMUNICATE MANAGEMENT'S VIEW

HKFRS 18 presumes that a subtotal of income and expenses used in public communications outside the financial statements communicates management's view of an aspect of the financial performance of the entity **as a whole**.

An entity is permitted to rebut this presumption only when it has reasonable and supportable information available that demonstrates **both** of the following:

#### The subtotal does not communicate management's view

Examples include cases in which the subtotal is:

- Communicated without prominence
- Not used internally to assess or monitor financial performance

and

#### The subtotal is used for a reason other than communicating management's view

Examples include cases in which the subtotal is:

- Required by law or regulation
- Used to communicate performance related to financial statements under a non-HKFRS Accounting Standards framework
- Used to satisfy a request from an external party
- Used to communicate information other than financial performance

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### DISCLOSURES FOR MPMS

Once a performance measure meets the definition of an MPM, entities should label and describe each MPM in a clear and understandable manner and are required to disclose the following information in a single note.

A statement	For each MPM	
	Descriptions	A reconciliation
<p>The MPMS:</p> <ul style="list-style-type: none"> <li>provide management's view of an aspect of the financial performance of the entity as a whole; and</li> <li>are not necessarily comparable with measures sharing similar labels or descriptions provided by other entities.</li> </ul>	<ul style="list-style-type: none"> <li>The aspect of financial performance is communicated by the MPM;</li> <li>Why the MPM provides useful information; and</li> <li>How the MPM is calculated.</li> </ul>	<ul style="list-style-type: none"> <li>Between the MPM and the most directly comparable total or subtotal required by HKFRS Accounting Standards, showing; <ul style="list-style-type: none"> <li>The income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation; and</li> <li>A description of how the entity determines the income tax effect.</li> </ul> </li> </ul>

#### Changes to MPMS

If an entity changes the calculation of an MPM, introduces a new MPM or ceases using a previously disclosed MPM, it is required to disclose:

- an explanation of the change, addition or cessation and its effects;
- the reasons for the change, addition or cessation; and
- restated comparatives to reflect the change, addition or cessation unless impracticable to do so.



#### Illustrative examples

HKFRS 18 IE8 provides illustrative examples of disclosures for MPMS.

### LATEST IASB DEVELOPMENTS

In April 2026, the IFRS Interpretations Committee published the following four Agenda Decisions related to IFRS 18. These Agenda Decisions provide useful insights into the application of the requirements in HKFRS 18:



- Assessment of a Specified Main Business Activity for the Purposes of the Separate Financial Statements of a Parent
- Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset)
- Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure
- Scope of the Requirement to Disclose Expenses by Nature

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### KEY CONSIDERATIONS FOR PREPARERS



#### Early internal alignment and external communications

Entities should involve the appropriate level of management and investor relations teams early in the process to identify which performance measures meet the definition of an MPM, how those performance measures will be communicated going forward, and how those communications may affect financial statement disclosures.



#### Comparative information requirements

On initial application of HKFRS 18, comparative information for MPMs is required. Preparers should therefore assess at an early stage what data will be needed for the comparative period to support adoption of the new Standard.



#### Audit considerations

Disclosures for MPMs will be subject to audit. Early engagement with auditors would be necessary to agree on the identification of MPMs, related disclosure changes and the documentation expected to support significant judgements.

### LOOKING AHEAD: WHAT'S NEXT IN OUR SERIES

In the next issue, we will focus on how HKFRS 18 will change the income statement of financial institutions.



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