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TRANSPARENCY OF MANAGEMENT PERFORMANCE MEASURES (MPMs): AN ANALYSIS OF IFRS 18 IN ADDRESSING INFORMATION ASYMMETRY

TRANSPARÊNCIA DAS MEDIDAS DE DESEMPENHO DE GESTÃO (MPM): UMA ANÁLISE DA IFRS 18 NO ENFRENTAMENTO DA ASSIMETRIA INFORMACIONAL

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ABSTRACT

This theoretical essay aims to analyze how Management Performance Measures (MPMs), whose mandatory disclosure was introduced by IFRS 18 – *Presentation and Disclosure in Financial Statements*, can be useful to stakeholders in evaluating corporate performance, thereby reducing information asymmetry in relation to management. In addition, the study seeks to provide an original contribution to accounting literature by exploring a still emerging topic, particularly in the context of the recent implementation of IFRS 18 and its potential informational impacts. The methodology adopted consists of bibliographic and documentary research, encompassing prior studies on related topics as well as documents issued by entities responsible for establishing and reviewing accounting standards and practices. The technical approach involves the development of analytical arguments and discussions aligned with the proposed objective. The findings indicate that the requirements introduced by IFRS 18—particularly those related to the reconciliation and disclosure of explanatory information regarding MPMs—may represent an effective instrument for mitigating information asymmetry.

Keywords: Management Performance Measures; IFRS 18; Information Asymmetry.

RESUMO

O presente ensaio teórico tem como objetivo analisar como as Medidas de Desempenho de Gestão (MPM), cuja divulgação obrigatória foi introduzida pela IFRS 18 – Apresentação e Divulgação nas Demonstrações Financeiras, podem ser úteis para os stakeholders na avaliação do desempenho das empresas, de modo a reduzir a assimetria informacional em relação aos administradores. Além disso, o estudo busca oferecer uma contribuição original à literatura contábil ao explorar um tema ainda emergente, especialmente no contexto da recente implementação da IFRS 18 e de seus potenciais impactos informacionais. A metodologia adotada nesta pesquisa consiste na investigação bibliográfica e documental, na qual foram levantados estudos anteriores sobre os temas relacionados, além de documentos fornecidos por entidades responsáveis pelo estabelecimento e revisão de práticas contábeis. Os métodos técnicos aplicados envolvem o desenvolvimento de argumentações e discussões sobre o assunto de acordo com o objetivo proposto. Os resultados obtidos indicam que a exigência da IFRS 18 quanto à reconciliação e à divulgação de explicações das MPM pode representar um instrumento com potencial de mitigar a assimetria informacional.

Palavras-chave: Medidas de desempenho de gestão, IFRS 18, Assimetria informacional.

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1. Introduction

A seleção de alternativas de investment should be preceded by a careful analysis (Belo & Brasil, 2006). It is not new that so-called "information asymmetry" is a phenomenon that significantly impacts the economy and the financial system as a whole, as it arises from privileged information that may lead to market distortions and, consequently, affect investors.

When problems occur—whether intentional or not—in the distribution of information by companies, certain market agents end up having more information than others. The activities of investor relations (IR) departments aim to improve the flow of information from the company to the market and from the market to the company (Bollen et al., 2006).

In this context, information presented through financial statements is considered crucial for stakeholders. However, the reported information is not always sufficient to eliminate the information asymmetry that may exist between internal users (managers, employees, among others) and external users (investors, lenders, and other creditors), who are the primary users of such information (De Arruda et al., 2015).

With the purpose of enhancing the disclosure of companies' financial performance and providing investors with a more robust basis for analyzing and comparing firms, the International Accounting Standards Board (IASB) issued IFRS 18 – *Presentation and Disclosure in Financial Statements* in 2024. This standard aims to provide greater transparency and consistency regarding financial performance, enabling users to make decisions based on higher-quality information.

Amid the new requirements introduced by IFRS 18, this study highlights the enhancement of transparency concerning so-called Management Performance Measures (MPMs), as defined by management. MPMs are indicators established by companies' management to assess financial performance and support strategic decision-making.

Although IFRS 18 represents progress in the standardization and disclosure of performance-related information (Djemai, 2025; Oyedokun et al., 2025), prior studies also point to interpretative and comparability challenges associated with MPMs (Ergun, 2025; Carmo, 2024), as well as gaps in empirical evidence regarding their effects on investors and analysts (Salotti, 2024). This context indicates that the topic remains emergent, allowing for original contributions toward improving transparency and mitigating information asymmetry.

Given the uncertainty regarding how such information can be effectively used by stakeholders to assess companies' financial performance and reduce information asymmetry in relation to management, the following research question is proposed: How can Management Performance Measures (MPMs) assist stakeholders in evaluating companies' financial performance?

Considering that little is known about the practical effectiveness of MPMs in enhancing transparency and supporting informed decision-making by investors, creditors, and other stakeholders, the objective of this study is to identify how MPMs can be useful to stakeholders in assessing companies' financial performance, thereby reducing information asymmetry and improving decision-making processes.

IFRS 18 will become effective for reporting periods beginning on or after January 1, 2027, although early adoption is permitted, subject to approval by relevant regulators (IFRS, 2024; Deloitte, 2024). This research contributes to the understanding of the regulatory evolution of the topic and is justified by its impact on financial statements, compliance analysis, and implementation challenges, particularly in Brazil. Studies such as Neves (2024) point to

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potential legal obstacles to IFRS 18, mainly arising from conflicts with Brazilian corporate law. Although adoption of IFRS 18 will only be mandatory from 2027 onward, companies need to become familiar with its requirements to ensure a transition that minimizes errors and penalties.

This article is structured into five sections. The first section is this introduction. The second presents a literature review on financial statements and their users, an overview of IFRS 18 and its implications, including Management Performance Measures (MPMs), and the impact of information asymmetry on stakeholders' decision-making. The third section outlines the methodological procedures. The fourth presents the results, including discussions and arguments on the topic. The fifth section provides the final considerations, research contributions to accounting, study limitations, and recommendations for future research.

2. Literature Review

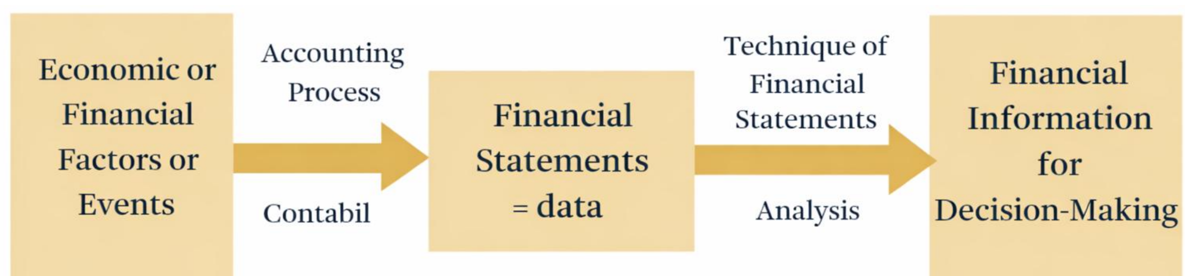
2.1 Financial Statement Analysis

Financial statement analysis originated in the late nineteenth century within the American banking system, where it was initially used to assess the creditworthiness of firms applying for loans. According to Diniz (2015), the Executive Council of the New York State Bankers Association recommended that banks require signed statements detailing the assets and liabilities of borrowers. Subsequently, a standardized form was developed, incorporating balance sheet data from firms seeking financing, thereby consolidating the practice of accounting analysis.

Over time, this analytical approach expanded beyond the banking sector and became essential for investors, regulators, and managers in evaluating firms' financial health. Consequently, financial statement analysis is now regarded as an indispensable tool for assessing financial performance and the economic sustainability of organizations.

Financial statements provide an objective and detailed view of a company's economic and financial position (Sebastião, 2014). Data related to revenues, expenses, assets, liabilities, and equity, among other elements, can be transformed into valuable information for stakeholders, as they enable performance evaluation, the identification of risks and opportunities, and support strategic decision-making. According to Matarazzo (2010), the process of financial statement analysis consists of generating information through the processing of data, as illustrated in Figure 1.

Figure 1 – Financial Statement Analysis Process



Source: Matarazzo (2010)

According to Nascimento et al. (2021), data in itself lacks relevance, as it merely consists of stored records that do not necessarily add value to decision-making. For data to become useful, it must be processed and transformed into information—that is, into content capable of influencing choices and generating impact for users.

Accounting information should provide new elements that alter the perception of decision-makers. If information does not introduce novelty or change the understanding of a

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given situation, it loses its value as a tool to support management and market decisions. It is therefore essential to distinguish between the concepts of data and information: data refers to what is stored, whereas information is what is communicated and interpreted.

In this sense, accounting is not limited to recording transactions but plays an active role in conveying relevant information to stakeholders. Accounting records fulfill their informational function by structuring and disclosing financial reports in a clear and useful manner, enabling users to rely on them for effective decision-making (Nascimento et al., 2021).

Data quality is critical, as both strategic and operational decisions are based on such data. The availability of reliable, accurate, and transparent information enhances stakeholders' decision-making, reduces risks, and increases confidence in the organization. Conversely, inconsistent or inaccurate data may lead to misinterpretations, negatively affecting investments, financing decisions, and the organization's reputation. Therefore, the accuracy and reliability of financial statements are essential for business sustainability and growth. According to Silva and Souza (2011, p. 68):

> Financial statements are used by an entity's management to provide accountability and convey information regarding its economic and financial position to shareholders, creditors, government authorities, and other interested parties […] They present useful information that reflects the entity's operations over a given period and, when analyzed, facilitate the identification of strengths and weaknesses in the execution of its activities, whether operational or non-operational.

In this context, the objective of financial statement analysis is to provide useful information regarding a company's financial position, profitability, and operating, investing, and financing activities (Martins, 2011). Users of this information—also referred to as stakeholders—may have diverse interests in financial statements, depending on their profile and relationship with the firm. Each group analyzes such data with specific objectives, according to its needs and expectations (Sebastião, 2014).

Investors, including providers of risk capital and their advisors, continuously assess the risk and return of their investments. To make decisions regarding the purchase, retention, or sale of shares, they require detailed information, as do shareholders, who also seek data to evaluate the company's ability to distribute dividends.

Employees and their representatives are interested in the organization's stability and profitability, as these factors directly affect wages, pension benefits, and career opportunities. Lenders, in turn, require information that enables them to assess whether the company will be able to meet its loan and interest obligations at maturity. Similarly, suppliers and other trade creditors analyze the company's capacity to settle its financial obligations on time. While trade creditors generally focus on a shorter time horizon, they may maintain a longer-term interest if they depend on the company's continuity as a significant customer.

Customers, on the other hand, monitor the company's viability, particularly when they maintain long-term contracts or rely on its products or services. Government authorities and regulatory bodies use financial information to monitor resource allocation, regulate business activities, establish tax policies, and compile economic and social statistics. Finally, the general public is affected in various ways by corporate activities, whether through job creation, stimulation of the local economy, or relationships with suppliers. Financial statements provide information on the company's development, economic performance, and the scope of its operations.

The existence of standardized financial statements, prepared in accordance with accounting standards, enhances both comparability and transparency. Stakeholders are thus able to more effectively analyze the financial performance of different companies, whether within

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the same industry or across sectors. This reinforces the importance of comparability for stakeholders in making informed decisions regarding resource allocation, investment opportunities, and risk assessment (Reis et al., 2014; Neves, 2024).

Moreover, standardization promotes greater consistency and reliability in the information disclosed by companies, reducing the likelihood of managerial manipulation, misinterpretation of financial data, and, consequently, information asymmetry.

2.2 IFRS 18 – Presentation and Disclosure in Financial Statements

Information asymmetry remains a persistent challenge in financial markets. To mitigate its effects and promote a fair and transparent investment environment, regulatory agencies—such as the Brazilian Securities and Exchange Commission (CVM)—impose strict disclosure requirements, particularly for publicly traded companies. In turn, firms are expected to adopt sound corporate governance practices, including independent boards and external audits, to ensure that disclosed information is accurate and complete.

All these elements contribute to effective information disclosure in the market. Companies that adopt transparency policies and engage proactively with investors tend to reduce information asymmetry. In this context, the "Primary Financial Statements" project was initiated by the International Accounting Standards Board (IASB) with the aim of reviewing and improving how companies present their financial statements, particularly regarding the classification and presentation of information relevant to investors and other stakeholders. The primary objective was to provide a clearer and more useful structure for communicating financial information—especially operational performance—while enhancing consistency and transparency in financial reporting (Salotti, 2024).

The project began in 2017 following an assessment of gaps in existing financial statement presentation practices, particularly concerning the clarity of non-recurring items and management performance measures. The IASB launched a public consultation process to gather stakeholder feedback on the need to revise presentation practices, with a focus on distinguishing between operating and non-operating activities, as well as improving the presentation of Management Performance Measures (MPMs).

This initiative resulted in the development of the document *Exposure Draft ED/2019/7 – General Presentation and Disclosures* (IFRS, 2019), which proposed revisions to primary financial statements and detailed the suggested changes to presentation practices. The proposal introduced new disclosure requirements, emphasizing improvements in the quality of financial information, highlighting operating performance, and requiring reconciliation of MPMs with audited financial statements.

The proposal generated extensive feedback from stakeholders, including companies, auditors, regulators, and investors. This phase was critical for refining the standard and aligning stakeholder expectations with the project's objectives. According to Salotti (2024), the IASB received 215 comment letters, which were analyzed to improve the document. Figure 2 presents these 215 letters organized according to stakeholder type:

Figure 2 – Analysis of Comment Letters on ED/2019/7 by Stakeholder Type.

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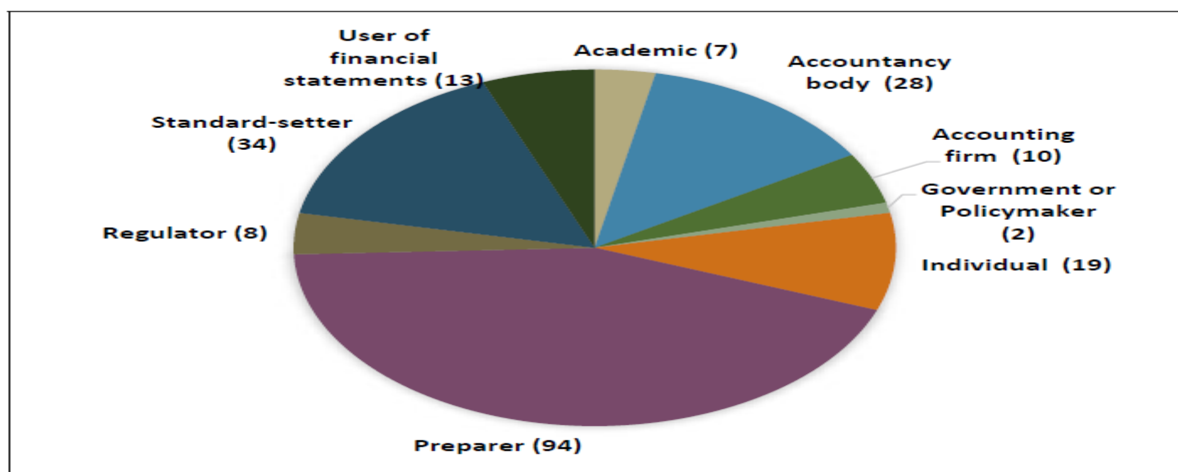

Source: Salotti (2024)

Following a process of revisions and adjustments, the IASB finalized the project and issued IFRS 18 – *Presentation and Disclosure in Financial Statements*, aiming to enhance the requirements for the presentation and disclosure of financial statements. The main innovations introduced by IFRS 18 include: (i) improved comparability in the statement of profit or loss; (ii) increased transparency of management-defined performance measures; and (iii) enhanced grouping and structuring of information within financial statements (IFRS, 2024).

In general terms, companies that apply IFRS standards in the preparation of their financial statements are affected by IFRS 18. The standard establishes guidelines for the presentation and disclosure of financial statements, thereby impacting all entities that adopt these standards. IFRS 18 replaces IAS 1 (equivalent in Brazil to CPC 26 – *Presentation of Financial Statements*) and introduces a categorized structure for the statement of profit or loss. This approach aims to reduce variability in income statement reporting and enable more effective comparability across companies for users.

According to Salotti (2024), the provisions of IAS 1 remain incorporated into the new standard, with certain elements being adapted or transferred to other standards, as illustrated in Figure 3.

Figure 3 – Comparison between IAS 1 and IFRS 18

General Considerations	IAS 1	IFRS 18
Fair Presentation and Compliance	Items 15-24	Transferred to IAS 8 - Items 6A-6J
Compliance	Items 25-26	Transferred to IAS 8 - Items 6K-6L
Accrual Basis	Items 27-28	Transferred to IAS 8 - Items 6M-6N
Materiality and Aggregation/Disaggregation	Items 29-31	Items 19-20 and 41-43 (updated)
Offsetting Amount	Items 32-35	Items 44-45
Frequency of Presentation of Financial Statements	Items 36-37	Items 28-29
Comparative Information	Items 38-44	Items 31-40
Consistency of Presentation	Items 45-46	Item 30

Source: Salotti (2024)

It is important to note that IAS 1 did not explicitly require a strict distinction between primary and non-primary activities, nor did it prescribe a single format for the statement of profit or loss. However, the standard required financial statements to provide relevant and comparable information, which could lead companies to separate operating and non-operating income in order to enhance transparency (Czajor, 2024).

The implication of this approach is that companies must appropriately classify their

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revenues and expenses to accurately reflect their core activities. This directly affects financial analysis, as it enables investors and analysts to more clearly distinguish recurring performance (related to core operations) from occasional gains or losses (arising from non-operating activities, such as asset disposals or exchange rate fluctuations).

If a company fails to adequately separate these categories, it may distort the perception of its actual performance, making it difficult for external users to assess its sustainable profitability. Therefore, in order to improve IAS 1 in terms of clarity and reliability of financial information, IFRS 18 requires a restructuring of the statement of profit or loss, introducing five specific categories for the classification of income and expenses: operating, investing, financing, income taxes, and discontinued operations.

In addition, the standard requires the presentation of subtotals such as "Operating Profit" and "Profit Before Financing and Income Taxes," thereby providing a clearer view of the entity's financial performance.

Table 1 – Simplified Structure of the Income Statement by Categories

Income Statement	Categories
Revenue	
Operating expenses	Operating
OPERATING PROFIT	
Share of profit or loss of investees	
Income from other investments	Investing
Interest income from cash and cash equivalents	
PROFIT BEFORE FINANCING AND TAXES	
Interest expenses on borrowings and lease liabilities	
Interest expenses on pension obligations	Financing
PROFIT BEFORE TAXES	
Income tax and social contribution	Income taxes
PROFIT FROM CONTINUING OPERATIONS	
Discontinued operations	Discontinued operations
NET PROFIT	

Source: Adapted by the author based on KPMG (2024)

Another significant change introduced by IFRS 18 is the requirement for greater disaggregation of information. Companies must present expenses either by nature (e.g., depreciation and salaries) or by function (e.g., cost of goods sold and administrative expenses), selecting the approach that provides the most relevant information. Additionally, the standard mandates the disclosure of Management Performance Measures (MPMs), which constitute the central focus of this study. MPMs are internally used performance indicators defined by management and must be accompanied by a reconciliation with the subtotals required under IFRS 18.

The notes to the financial statements will also be affected, as they are expected to provide more detailed context regarding the items presented, including information on accounting policies, significant estimates, and critical judgments made by management. These changes impact both companies and investors. Firms will need to adapt their accounting systems and internal processes to comply with the new requirements, as well as train their personnel to properly apply the updated guidelines. For investors and other users of financial statements, IFRS 18 is expected to enhance clarity and comparability, enabling a more accurate assessment of companies' financial and operational performance.

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Prior to the issuance of IFRS 18, there was no prescribed structure for the statement of profit or loss, allowing companies to determine which subtotals to present. As a result, although firms reported operating profit for a given period, the method used to calculate such profit could vary across companies, thereby reducing comparability (IFRS, 2024).

The emerging body of literature on IFRS 18 reveals differing perspectives regarding its usefulness and implementation. Studies such as Djemai (2025) and Oyedokun et al. (2025) emphasize that the standard represents a significant advancement in the standardization of managerial disclosures, enabling stakeholders to obtain a more transparent view of corporate performance and, consequently, reducing information asymmetry between management and investors.

Conversely, other studies highlight practical challenges associated with the implementation of IFRS 18. Ergün (2025) argues that the use of MPMs as a "new communication language" requires analysts and investors to adapt in order to interpret firm-specific performance indicators. Carmo (2024), in an analysis of European companies, demonstrates that differences in accounting practices and the level of detail in MPM disclosures still create comparability challenges across organizations, indicating that the standard remains in an early stage of consolidation.

Furthermore, El Khatib (2025) raises concerns regarding potential legal ambiguities and variations in application across jurisdictions, suggesting that the effectiveness of IFRS 18 depends not only on standardization but also on alignment among regulatory frameworks, disclosure practices, and stakeholders' ability to interpret the information. From this perspective, Salotti (2024) emphasizes that the academic literature on IFRS 18 remains limited, particularly regarding the impact of MPMs on the decision-making processes of investors and analysts, reinforcing the emergent nature of the standard.

2.3 Management Performance Measures (MPMs)

In line with the objective of this study and the key changes introduced by IFRS 18, particular attention is given to the concept of Management Performance Measures (MPMs), which, according to the new standard, must be disclosed in the notes to the financial statements. According to Paixão (2024), MPMs provide users of financial statements with insights into how management evaluates the company's performance, and can be used to assess the effectiveness of corporate strategy, compare performance with peers, and identify areas of risk and opportunity. These measures may be quantitative—such as revenue, net income, and return on equity (ROE)—or qualitative, such as customer satisfaction and the quality of products or services (Cruz, 2024).

Information related to MPMs must be disclosed in a single note within the financial statements, including a reconciliation between the MPM and the most directly comparable subtotal specified under IFRS accounting standards (Neves, 2024). This approach aligns with the concept of non-GAAP measures, which entities use: (i) in public communications outside the financial statements; and/or (ii) to communicate management's perspective on the entity's performance to users of financial statements (Grant Thornton, 2024).

Non-GAAP measures are performance indicators used to evaluate and monitor business performance that do not fully adhere to the theoretical foundations established by prevailing accounting standards (Vasconcelos, 2017). In other words, they are alternative metrics that do not comply with Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Among the most widely used non-GAAP measures is EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), which reflects operating performance without the effects of financial and accounting adjustments. Another relevant

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metric is EBIT (Earnings Before Interest and Taxes), which is similar to EBITDA but includes depreciation and amortization (CFA, 2016).

Rainsbury (2016) examined the impact of guidelines issued by the New Zealand Financial Markets Authority (FMA) on the disclosure of non-GAAP financial information by listed companies. The study analyzed whether the introduction of these guidelines led to changes in both the quantity and quality of non-GAAP disclosures, as well as the emphasis placed on such measures relative to audited GAAP earnings.

The findings indicate that although the quality of non-GAAP earnings disclosures improved in companies' annual reports between 2012 and 2014, concerns remain regarding the definitions and terminology used for non-GAAP earnings, which may hinder comparability over time and across firms. Furthermore, the depth of explanations regarding the calculations and adjustments of non-GAAP earnings still requires improvement.

As highlighted by De Andrade and Murcia (2019), non-GAAP measures inherently involve managerial discretion, generating ongoing debate about their comparability across firms. Due to their non-standardized nature and customization by management, these measures may hinder investors' ability to compare the performance of different companies (Brown, 2020). For example, McKeon and Usvyatsky (2018) found that issues related to non-GAAP measures represented the second most frequent source of comments from the U.S. Securities and Exchange Commission (SEC) during filing reviews.

Non-GAAP measures are not prohibited under IFRS; however, their use must comply with specific guidelines. IFRS allows companies to present adjusted metrics, provided they are transparent, reconciled with accounting figures, and do not mislead users. The primary concern is that, due to the absence of a standardized framework, such measures may be manipulated to present a more favorable financial performance than actually exists.

Additionally, the lack of standardization complicates comparisons among firms within the same industry, as each company may define its own criteria for calculating metrics such as adjusted EBITDA or adjusted net income. This potential for distortion and lack of transparency may impair investors' and analysts' ability to accurately assess corporate performance.

Yang and Abeysekera (2018) investigated the quality of income statements of Australian companies that complied and did not comply with non-GAAP guidelines issued by the Australian Securities and Investments Commission (ASIC) between 2011 and 2014. The study found that non-compliant firms tended to exclude relevant recurring expenses when calculating underlying earnings, which may mislead users of financial information.

From this perspective, the transparency of MPMs—considered non-GAAP measures—is particularly relevant, as the opportunistic use of such metrics may lead investors to question management's underlying motivations and the informational value of these measures (Brown, 2020). It is important to note that the literature also provides evidence of the usefulness of non-GAAP measures for financial reporting (Bradshaw & Sloan, 2002; Bhattacharya et al., 2003; Brockman & Russell, 2012). Therefore, despite the risks of manipulation, MPMs can play a significant role in evaluating corporate performance, provided they are presented clearly and transparently.

2.4 Information Asymmetry

According to Bertolin et al. (2008), information asymmetry is defined as a phenomenon in which certain economic agents possess more information than their counterparts, creating an environment characterized by uncertainty and insecurity. In financial markets, such conditions result in imbalances in both access to and quality of information between company managers

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and investors.

To understand a firm's organizational structure and its economic and financial information, the disclosure of financial statements by internal management is essential (De Arruda et al., 2015). Managers, who are directly involved in the company's day-to-day operations, have access to detailed, internal, and often confidential information regarding performance, strategies, and risks. In contrast, investors rely on publicly available financial reports, press releases, and other disclosure mechanisms, which may not fully reflect the company's internal reality.

The relationship between financial statements and information asymmetry lies in the transparency and accessibility of information within an organization. When financial statements are incomplete, manipulated, or of low quality, information asymmetry increases, favoring internal groups—such as managers and controlling shareholders—at the expense of minority investors, creditors, and other stakeholders.

The central challenge in addressing information asymmetry in financial markets is to mitigate the risk of transactions between informed and uninformed investors, which may lead to adverse selection problems (Akerlof, 1970) and/or moral hazard issues (Jensen & Meckling, 1976). Ali (2010) emphasizes the importance of enhanced disclosure by companies, as it reduces information asymmetry, increases the visibility and tradability of securities, and consequently tends to lower the cost of capital.

An efficient market is defined by Fama (1973, p. 133) as one in which "security prices fully reflect all available information." Insufficient information leads to mispricing or delays in price adjustments (Belo & Brasil, 2006). Akerlof (1970) illustrated the implications of information asymmetry through the used car market in the United States.

According to the author, sellers possess full knowledge of the condition of their vehicles, while buyers lack such information. This asymmetry leads buyers to offer lower prices, anticipating potential hidden defects. As a result, sellers of high-quality vehicles may withdraw from the market, unwilling to accept prices below their true value. The uncertainty inherent in such an environment, combined with conflicts of interest driven by information asymmetry, results in markets dominated by lower-quality goods, thereby increasing distrust among participants.

Therefore, a market can be considered efficient when information is not asymmetrically distributed—that is, when investors have sufficient information to make informed decisions, leading to accurate asset pricing. Conversely, information asymmetry may result in less efficient financial markets, where stock prices do not fully reflect available information, causing investors to make decisions based on incomplete or outdated data, thereby increasing operational risk. When investors perceive that they are not adequately informed, this may lead to reduced participation and lower liquidity in capital markets.

3 Methodological Procedures

This study is characterized as a theoretical essay (Meneghetti, 2011), qualitative in nature, developed through bibliographic and documentary research, with the objective of analyzing the informational potential of Management Performance Measures (MPMs) introduced by IFRS 18 in reducing information asymmetry between management and stakeholders.

The choice of a theoretical essay is justified by the recent and emergent nature of IFRS 18, whose implementation is still in its early stages, thereby limiting the availability of consolidated empirical data. In this context, the theoretical essay is appropriate, as it enables

the critical articulation of concepts, standards, and prior evidence, allowing for deeper analytical insights and the identification of research gaps, as recommended for exploratory studies in normative accounting and financial disclosure (Martins & Theóphilo, 2016).

The selection of bibliographic sources was conducted systematically, prioritizing recent national and international studies addressing IFRS 18, Management Performance Measures (MPMs), information asymmetry, and the usefulness of accounting information for stakeholders. Sources included articles published in scientific journals, academic studies available on Google Scholar, as well as technical publications from regulatory bodies and accounting firms. The inclusion criteria were: (i) thematic alignment with the study's objective; (ii) academic relevance of the publication outlet; and (iii) recency of the sources, with emphasis on works published after the issuance of IFRS 18.

The documentary analysis focused on official pronouncements related to IFRS 18 – *Presentation and Disclosure in Financial Statements*, issued by the International Accounting Standards Board (IASB). These documents were examined based on predefined analytical criteria, namely: (i) formal disclosure requirements for MPMs; (ii) requirements for reconciliation with traditional accounting measures; (iii) the need for qualitative explanations regarding the definition and use of MPMs; and (iv) potential implications for transparency. The interpretation of these criteria was conducted in light of accounting literature and the informational objectives of the standard, enabling a critical and integrated analysis between theory and regulation.

Thus, the methodological procedures adopted allowed for the development of analytical and comparative arguments aligned with the study's objective, contributing to a deeper understanding of the role of MPMs as informational instruments within the context of IFRS 18.

4 Analysis and Discussion of Results

IFRS 18 introduces two elements that conceptually enhance the transparency and credibility of Management Performance Measures (MPMs), which are now required to be disclosed in the notes to the financial statements. The first is the mandatory reconciliation of MPMs with the subtotal or total most directly comparable under IFRS 18 or another IFRS requirement. This disclosure enhances users' understanding of the impact of MPMs on accounting figures and helps mitigate potential earnings management practices (Yang & Abeysekera, 2018).

The second requires management to formally state that the MPMs used reflect its view of the entity's overall financial performance, providing stakeholders with information to assess the effectiveness of corporate strategy, compare performance with peers, and identify areas of risk and opportunity.

This implies that, by reflecting managerial metrics, MPMs can bring external users closer to the decision-making logic employed by management. This aspect is particularly relevant for investors and analysts, who often demand performance indicators that go beyond the scope of traditional financial statements.

Accordingly, the primary opportunity associated with MPMs lies in their ability to complement GAAP-based information, offering stakeholders a perspective more aligned with how management evaluates the company's economic performance. By excluding items considered non-recurring or non-operational, MPMs may enhance informational relevance, enabling analyses more focused on underlying operating performance.

Adjustments related to restructuring, gains or losses from asset disposals, or extraordinary foreign exchange fluctuations, for instance, may significantly affect net income

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but do not necessarily reflect the firm's long-term value creation capacity. By isolating such effects, MPMs allow stakeholders to better understand the underlying business performance, reducing the likelihood of misinterpretation that could arise from exclusive reliance on traditional GAAP metrics.

Despite these informational benefits, the discretionary nature of MPMs entails inherent risks. The absence of standardization may allow for managerial bias, selective adjustments, and earnings management practices, leading to the choice of metrics that favor a more positive portrayal of corporate performance. This risk is widely discussed in the literature on non-GAAP measures, which highlights the potential for selective or overly optimistic disclosures.

The study by Rainsbury (2016), conducted with Australian companies, indicates that the quality of non-GAAP financial information improved following the establishment of disclosure guidelines, particularly in terms of clarity, consistency, and reduced managerial bias. This finding suggests that the central issue with non-GAAP measures lies not in their existence, but in the absence of clear disclosure standards.

In this context, IFRS 18 incorporates regulatory mechanisms by requiring that MPMs be: (i) clearly defined; (ii) reconciled with recognized accounting measures; and (iii) accompanied by qualitative explanations regarding their usefulness and limitations. As a result, MPMs evolve from purely internal or subjective measures into instruments of strategic and transparent communication, helping to mitigate the environment of uncertainty and insecurity highlighted by Bertolin et al. (2008).

These conclusions are consistent with the findings of Brown (2020), who identified that research on non-GAAP measures generally supports their usefulness in enabling firms to explain unusual financial effects that are not representative of underlying business trends, as well as to highlight financial items that are more relevant for understanding core operations.

Since MPMs aim to provide stakeholders with a more accurate and reliable view of corporate performance—facilitating decision-making and reducing risks associated with the interpretation of financial results—they can contribute to mitigating information asymmetry by offering clearer explanations of atypical financial variations and emphasizing management-relevant metrics for understanding business operations.

Nevertheless, stakeholders must critically assess MPM reconciliations and the justifications provided by companies, as regulatory requirements do not entirely eliminate the risk of bias or distortion. Thus, IFRS 18 emerges as a regulatory mechanism designed to enhance the opportunities associated with MPMs while mitigating their inherent risks by establishing formal criteria for their disclosure, reconciliation, and explanation.

5 Final Considerations

This study provides an original contribution by analyzing the role of Management Performance Measures (MPMs) in light of IFRS 18, addressing a still emerging topic in accounting literature: the use of MPMs to reduce information asymmetry between management and stakeholders. Unlike prior studies that have focused exclusively on non-GAAP measures or normative theory, this research integrates documentary analysis, literature review, and critical discussion to examine how the mandatory reconciliation of MPMs and the formal accountability of management may enhance transparency and the usefulness of financial information.

From a practical perspective, the findings indicate that IFRS 18 represents a relevant regulatory instrument for both auditors and regulators. For auditors, the study highlights the importance of assessing not only the accounting accuracy of MPM reconciliations but also the

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consistency and justification provided by management, ensuring that adjustments reflect the entity's underlying performance rather than a selectively constructed managerial perspective. For regulators, the findings reinforce the importance of clear and detailed disclosure requirements for non-GAAP measures, which can reduce managerial bias and improve comparability across firms, thereby strengthening market confidence and the quality of corporate governance.

In summary, this theoretical essay demonstrates that, although MPMs are non-GAAP measures, their structured and regulated disclosure under IFRS 18 has the potential to mitigate information asymmetry, enhance financial transparency, and serve as a tool to support informed decision-making. At the same time, it underscores that continuous critical analysis by investors and stakeholders remains essential, reinforcing the importance of robust governance, auditing, and regulatory practices in the context of emerging financial information.

Despite its contributions, this study has several limitations that should be acknowledged. First, it is a theoretical and exploratory study based on bibliographic review and documentary analysis, without the use of empirical or quantitative data, which limits the generalizability of the findings across different corporate contexts. Additionally, the study relies on selected literature and existing standards, without incorporating direct evidence on the application of MPMs across firms from different sectors or countries, which could provide more robust insights into the effectiveness of IFRS 18 in reducing information asymmetry. Finally, although international references were considered, the analysis does not include a comprehensive comparison across different regulatory jurisdictions, which may affect the applicability of the findings in diverse cultural and economic contexts.

Based on these limitations, several avenues for future research emerge. Empirical studies could examine, through financial data analysis or case studies, how MPM disclosures influence investor perception, cost of capital, or market volatility following the implementation of IFRS 18. Comparative studies across sectors and countries could identify variations in the impact of MPMs and their role in reducing information asymmetry, while qualitative research involving investors, analysts, and auditors could provide insights into how these measures are interpreted and incorporated into investment decisions. Furthermore, investigations into the evolution of MPM standardization over time and its relationship with corporate governance practices and audit quality could contribute to assessing the role of IFRS 18 as a mechanism for transparency and accountability, thereby expanding the understanding of its practical effects on financial markets.

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