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What matters
Switzerland

PREPARING FOR THE APPLICATION OF IFRS 18

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Overview

This publication highlights key issues entities may need to consider as they prepare to apply IFRS 18 *Presentation and Disclosure in Financial Statements*.

Key points

- IFRS 18 introduces a new structure for the statement of profit or loss, including mandatory categories and required subtotals.
- The classification of income and expenses is affected by whether an entity has a 'main business activity' of investing in assets or providing financing to customers.
- The standard introduces disclosure requirements for management performance measures, which are a subset of 'non-GAAP' measures used in public communications outside the financial statements.
- IFRS 18 places greater emphasis on aggregation, disaggregation and the clear labelling of information in the primary financial statements and the notes.
- Careful planning is critical because IFRS 18 is applied retrospectively and affects annual and interim reporting.

IFRS 18 replaces IAS 1 *Presentation of Financial Statements* and is effective for annual reporting periods beginning on or after 1 January 2027. It makes significant changes to how entities present their financial performance and explain it through disclosures. Careful planning is important, especially because IFRS 18 applies retrospectively and requires comparative information to be restated, including interim reporting periods where relevant.

Observation

IFRS 18 clarifies the distinct roles of the primary financial statements and the notes. The primary financial statements provide a structured summary of recognised assets, liabilities, equity, income, expenses and cash flows. The notes provide additional material information needed to understand the line items in those statements. Keeping this distinction in mind may help entities decide what information to include in their financial statements and where to include it.

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A new structure for the statement of profit or loss

One of the IASB's main objectives in issuing IFRS 18 was to improve the comparability and transparency of financial performance reporting. To support that objective, the standard introduces a new structure for the statement of profit or loss, with mandatory categories and additional required subtotals, including 'operating profit' and 'profit before financing and income taxes'.

Classification of income and expenses

IFRS 18 requires income and expenses to be classified in the statement of profit or loss in five categories as follows.

Category	Type of income and expenses in the category
Operating	All income and expenses not classified in the other categories (i.e. the operating category is a default category). It includes, but is not limited to, income and expenses from an entity's main business activities.
Investing	Income and expenses from: • investments in associates, joint ventures and unconsolidated subsidiaries • cash and cash equivalents • other assets that generate a return individually and largely independently of the entity's other resources.
Financing	Income and expenses from liabilities arising from transactions that involve the raising of finance, whether the transaction involves only the raising of finance or not. Note that when a liability arises from a transaction that does not involve only the raising of finance (e.g. a trade payable arising from the purchase of inventory), only interest income and expenses, including the effects of changes in interest rates, are classified in the financing category.
Income taxes	Income tax expense or income applying IAS 12 *Income Taxes* and any related foreign exchange differences.
Discontinued operations	Income and expenses from discontinued operations as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

The categories in the statement of profit or loss differ from the classifications used in the statement of cash flows. For example, cash flows from the acquisition and disposal of property, plant and equipment are presented as cash flows from investing activities, whereas the related income and expenses, such as depreciation, impairment, and gains or losses on disposal, are generally classified in the operating category in the statement of profit or loss.

Within the operating category, expenses should be classified and presented based on:

- their nature
- their function within the entity, or
- both characteristics (a mixed presentation).

Unlike IAS 1, IFRS 18 permits a mixed presentation of operating expenses. An entity should choose the presentation that provides the most useful structured summary of its expenses, taking into account:

- which line items best explain the main components or drivers of profitability
- which line items best reflect how the business is managed and reported internally
- relevant industry practice
- whether allocating particular expenses to functions would be so arbitrary that the resulting line items would not faithfully represent those functions.

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A new structure for the statement of profit or loss

Key points

When applying the classification requirements for income and expenses, entities may need to consider the following key points:

- Entities will need to identify how the income and expenses will be classified under the new operating, investing and financing categories, and evaluate changes needed to chart of accounts and reporting structures. Entities should assess whether they have a specified main business activity, because this affects the classification of certain income and expenses.
- Care may be needed when classifying items such as income and expenses on liabilities arising from transactions that do not involve only the raising of finance, foreign exchange differences, gains and losses on derivatives and hedging instruments, and amounts in the investing category (particularly when identifying assets that generate a return individually and largely independently of the entity's other resources).
- If expenses are presented by function, IFRS 18 requires certain specified expenses by nature to be disclosed in a single note. Entities should ensure their systems can capture this information at the required level of detail.
- Entities should assess how the new classifications affect covenants, remuneration packages and other key metrics.
- Entities may also need to explain to stakeholders any changes to key performance metrics arising from the new classification requirements.

Specified main business activities

When classifying income and expenses in the operating, investing and financing categories, an entity should assess whether it has a 'specified main business activity'.

IFRS 18 specifies two main business activities:

- investing in particular types of assets
- providing financing to customers.

If an entity has either of these main business activities, some income and expenses that would otherwise be presented in the investing or financing category are instead presented in the operating category. For example, an entity whose main business activity is investing in assets, such as an investment entity, should classify in the operating category the income and expenses arising from the assets in which it invests as part of that activity.

An entity may have more than one main business activity. For example, it may manufacture products and provide financing to customers. However, for this assessment, only investing in assets and providing financing to customers are relevant because other business activities do not affect the classification of income and expenses.

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A new structure for the statement of profit or loss

Assessing whether an entity has a specified main business activity

An entity is more likely to conclude that investing in assets or providing financing to customers is a main business activity if it uses a subtotal similar to gross profit that includes income and expenses that would otherwise be classified in the investing or financing category. This is an important indicator, but it is neither determinative nor required. The assessment requires judgement and should be supported by evidence. In assessing the significance of that subtotal, entities should consider how it is used. A subtotal is more likely to support that an entity has a specified main business activity when it is used to explain performance externally or to monitor operating performance internally.

Entities should consider all relevant facts and circumstances, not only the subtotals they use. Other indicators may include:

- segment information disclosed under IFRS 8 *Operating Segments*, if applicable
- the importance of investing in assets or providing financing to customers in achieving the entity's business objective
- how the entity describes its activities and performance externally
- how performance is evaluated and reported to key management personnel
- how managers are compensated—for example, where an entity invests in assets, compensation may be linked to the fair value of the assets managed.

Key points

When assessing whether they have a specified main business activity, entities may need to consider the following key points:

- The assessment is focused. Entities do not need to identify all main business activities; they only need to assess whether investing in assets and/or providing financing to customers is a main business activity, because only those activities affect whether certain income and expenses are classified in the operating category rather than the investing or financing category.
- Identifying specified main business activities requires judgement and should be supported by relevant evidence.
- Entities should monitor whether they start or stop having a specified main business activity, because a change may require the classification of related income and expenses to be revised prospectively.
- The assessment is made at the level of the reporting entity as a whole. As a result, the conclusion for purpose of the consolidated financial statements may differ from that at a subsidiary level, which may require consolidation adjustments.

Applying the classification requirements to specific items

Income and expenses on liabilities arising from transactions that do not involve only the raising of finance

Examples of liabilities arising from transactions that do not involve only the raising of finance include:

- trade payables for goods or services
- lease liabilities
- defined benefit pension liabilities.

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A new structure for the statement of profit or loss

Except in limited circumstances, IFRS 18 requires entities to classify in the financing category only interest income and expenses, including the effects of changes in interest rates, arising from these liabilities if those amounts are identified for the purposes of applying other IFRS Accounting Standards.

As a result, income and expenses arising from a single liability may be classified in more than one category. For example, when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to a long-term provision such as a decommissioning liability, an entity may recognise:

- the periodic unwinding of the discount on the liability
- the effects of changes in the discount rate used to measure the liability
- the effects of changes in the best estimate of the expenditure required to settle the liability.

In this example, the unwinding of the discount and the effects of changes in the discount rate are classified in the financing category. By contrast, changes in the best estimate of the expenditure required to settle the decommissioning obligation are classified in the operating category.

The net interest expense or income from Swiss BVG pension plans must now also be classified in the financing category.

Whether an entity is required to disaggregate income and expenses arising from changes in the carrying amount of a liability into separate amounts for interest income and expenses, including the effects of changes in interest rates, and other types of income and expenses depends on the requirements of the IFRS Accounting Standard that applies to that liability. For example, IFRS 2 *Share-based Payment* does not require an entity to identify separate components. Accordingly, the compensation expense should be fully classified in the operating category.

As explained below, an entity will also need to consider how to classify foreign exchange differences on such liabilities.

Foreign exchange differences

Foreign exchange differences are classified in the same category as the related income and expenses, unless doing so would involve undue cost or effort (in which case, foreign exchange differences are presented in the operating category).

In applying this requirement, entities should consider the following:

- For liabilities such as trade payables or lease liabilities, judgement may be needed because the related income and expenses may be classified into more than one category. In those cases, foreign exchange differences should be classified in one category and not split between categories. Similar liabilities should be treated consistently.
- The assessment of whether foreign exchange differences should be classified in the operating category on an undue cost or effort basis is made separately for each item, based on relevant facts and circumstances. Entities should define and apply a clear approach to what constitutes undue cost or effort.

Foreign exchange differences arising from intragroup loans

IFRS 18 does not address the classification in consolidated financial statements of foreign exchange differences arising from intragroup loans that have themselves been eliminated on consolidation.

The March 2026 *IFRIC Update* included a conclusion from the IFRS Interpretations Committee that an accounting policy choice exists to classify such differences either:

- by default, in the operating category, or
- in the same category in which the income and expenses from the intragroup loan would have been classified before their elimination on consolidation.

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A new structure for the statement of profit or loss

Gains and losses on derivatives and hedging instruments

IFRS 18 classifies gains and losses on derivatives and designated hedging instruments according to how the instrument is used. The starting point is whether the derivative is used to manage identified risks.

- For designated hedging instruments, gains and losses recognised in profit or loss are classified in the same category as the income and expenses affected by the hedged risk. If doing so would require grossing up those gains and losses, the entire amount is classified in the operating category.
- For derivatives used to manage identified risks but not designated as hedging instruments (often called economic hedges), gains and losses are generally classified in the same category as the income and expenses affected by the risks being managed. If doing so would require grossing up the gains and losses, or would involve undue cost or effort, the entire amount is classified in the operating category.
- For derivatives that are not used to manage identified risks, the classification of gains and losses depends on whether they relate to transactions that involve only the raising of finance:
  - If the derivative relates to a transaction that involves only raising finance, any gains and losses are classified in the financing category, subject to the specific requirements for entities with a main business activity of providing financing to customers.
  - If the derivative does not relate to a transaction that involves only raising finance, any gains and losses are classified in the operating category.

Entities that use derivatives as economic hedges should ensure their risk management documentation clearly explains how those instruments are used and supports the related classification outcome.

Assets that generate a return individually and largely independently of the entity's other resources

Income and expenses from assets that generate returns individually and largely independently of the entity's other resources are classified in the investing category, unless the assets are held as part of a specified main business activity. In that case, the related income and expenses are classified in the operating category. By contrast, income and expenses from assets that do not generate returns independently are classified in the operating category. Judgement may be needed to assess how an asset generates its return.

For assets that generate returns individually and largely independently, an entity may assess whether investing in those assets is a main business activity either on an asset-by-asset basis or by grouping assets with similar characteristics. For financial assets, the grouping should not be done at a level higher than the classes of financial assets identified in IFRS 7 *Financial Instruments: Disclosures.*

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Management performance measures: new disclosure requirements

IFRS 18 introduces disclosure requirements for management performance measures (MPMs), a subset of non-GAAP measures. An MPM is a subtotal of income and expenses that:

- is used in public communications outside the financial statements
- is used to communicate management's view of an aspect of the financial performance of the entity as a whole
- is not listed in IFRS 18:118 and is not specifically required to be presented or disclosed by another IFRS Accounting Standard.

If an entity uses MPMs, it must disclose these measures in a single note in its financial statements.

For each MPM, the disclosure should be clearly labelled and described so that it faithfully represents what the measure conveys and does not mislead users of the financial statements. It should include:

- a description of the aspect of financial performance that, in management's view, is communicated by the MPM, explaining why, in management's view, the MPM provides useful information about the entity's financial performance
- information on how the MPM is calculated
- a reconciliation between the MPM and either the most directly comparable subtotal listed in IFRS 18:118 or a total or subtotal specifically required to be presented or disclosed by IFRS Accounting Standards
- the income tax effect and the effect of non-controlling interests for each item disclosed in the reconciliation
- a description of how the income tax effect is determined.

These requirements apply to all entities, not only listed or public entities.

Examples of MPMs include:

- subtotals that adjust a total or subtotal specified in IFRS Accounting Standards (e.g. operating profit) to exclude non-recurring income or expenses or certain non-cash expenses, or
- subtotals prepared applying accounting policies that differ from IFRS Accounting Standards.

Key points

When applying the IFRS 18 requirements for MPMs, some of the key points entities may need to consider include:

- The SIX has issued guidelines on non-GAAP measures (Directive on the Use of Alternative Performance Measures). If an entity publishes a measure outside the financial statements that meets also the definition of a MPM, IFRS 18 requires it to be disclosed in the financial statements.
- Entities should review all public communications outside the financial statements, including communications issued outside the corporate reporting function, to identify subtotals of income and expenses that meet the definition of an MPM. This includes financial ratios whose numerator or denominator is such a subtotal. Judgement may be needed to determine whether a measure is an MPM (e.g. whether it is a subtotal of income and expenses as defined in IFRS 18).
- A subtotal of income and expenses used in public communications is presumed to communicate management's view of financial performance as a whole. That presumption can be rebutted only with reasonable and supportable evidence that the subtotal is used for another purpose.
- Each MPM should be clearly labelled and described so that it faithfully represents what it measures and does not mislead users of the financial statements.
- As noted in IFRS 18:BC360, the requirement that an MPM should faithfully represent what it measures is about transparent communication, not whether the measure is a 'good' or 'bad' performance measure.

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Aggregation and disaggregation: clearer principles and judgements

IFRS 18 clarifies how entities should aggregate and disaggregate information in the primary financial statements and the notes. Material information should be disaggregated. Aggregated items should be labelled clearly, and 'other' should be used only when no more informative label is available.

A separate line item is needed in the primary financial statements only when it contributes to a useful structured summary, even if another IFRS Accounting Standard identifies it as a minimum line item. Additional line items and subtotals should be presented only when they improve that summary.

In applying these principles, entities should:

- aggregate items with similar characteristics and disaggregate items with dissimilar characteristics
- group items in a way that does not obscure material information or reduce understandability
- present information in the primary financial statements and the notes in a way that reflects their complementary roles.

Key points

When applying the IFRS 18 requirements on aggregation and disaggregation, entities may need to consider the following key points:

- Reviewing the primary financial statements and the notes together to ensure the information presented complies with the aggregation and disaggregation requirements in IFRS 18.
- Using clear and informative labels for line items in the primary financial statements and for items disclosed in the notes, using 'other' only when no more meaningful label is available.
- Applying judgement to determine the appropriate level of detail so that material information is neither obscured by excessive aggregation nor by unnecessary detail.

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Other considerations

Disclosing the expected impact of IFRS 18

In periods before IFRS 18 is first applied, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to disclose that the standard has been issued but is not yet effective, together with known or reasonably estimable information relevant to assessing its possible impact. The extent of that disclosure will depend on the entity's progress with implementation and may include significant judgements, accounting policies and the effect on key profit or loss measures.

Consequential amendments to other IFRS Accounting Standards

Entities should also consider the consequential amendments introduced by IFRS 18. In particular:

- **IAS 7 *Statement of Cash Flows***—requires operating profit to be used as the starting point for the indirect method of reporting cash flows from operating activities. It also removes the presentation alternatives for interest and dividend cash flows for most entities. As a result, interest and dividends paid are generally classified as cash flows from financing activities, and interest and dividends received are generally classified as cash flows from investing activities.
- **IAS 33 *Earnings per Share***—removes the option to present additional EPS figures in the primary financial statements. Additional EPS figures may be disclosed only in the notes, and only when the numerator is a total or subtotal identified in IFRS 18 or an MPM.

Interim financial reporting in the first year of applying IFRS 18

Entities that prepare interim financial reports under IAS 34 *Interim Financial Reporting* should consider the following:

- IFRS 18 applies to interim periods in the first year of adoption. For example, a calendar year-end entity should reflect the new requirements in its 31 March 2027 or 30 June 2027 interim financial reports, depending on whether it reports quarterly or half-yearly
- in those interim financial reports, entities must present each heading it expects to use under IFRS 18, together with the subtotals required by the standard
- the disclosure requirements for MPMs also apply to interim financial reports
- entities should also consider the broader effects of IFRS 18 on interim financial reports, including the clarified requirements on aggregation and disaggregation.

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Additional resources

This publication highlights selected aspects of IFRS 18. A more comprehensive explanation of the new standard and its practical implications is available in Deloitte's iGAAP on DART [on subscription only].

IFRS Interpretations Committee

The IFRS Interpretations Committee has already published several agenda decisions on the application of IFRS 18 and continues to consider related issues. Topics addressed to date include:

- classification of foreign exchange differences from intragroup monetary liabilities or assets (as discussed above)
- assessment of a specified main business activity for the purposes of the separate financial statements of a parent
- scope of the requirement to disclose expenses by nature
- classification of gains and losses on a derivative managing foreign currency risk on a net exposure.

Entities should monitor activities by the IFRS Interpretations Committee for further guidance.

Views of regulators

- In March 2026, the International Organization of Securities Commissions (IOSCO) updated its *Statement on Non-GAAP Financial Measures* to address the interaction between the non-GAAP financial measures discussed in that statement and financial measures such as MPMs as defined in IFRS 18.
- In February 2026, ESMA, the European Securities and Markets Authority, issued the public statement *Reshaping performance: Implementation of IFRS 18 Presentation and Disclosure in Financial Statements*, which sets out detailed implementation expectations for European listed issuers. The statement highlights areas similar to those addressed in this newsletter. ESMA has also issued Q&A 2775, which explains the interaction between MPMs as defined in IFRS 18 and ESMA's *Alternative Performance Measures Guidelines*.
- In the US, the SEC has noted that in order to be publicly communicated by a registrant, a measure must comply with the SEC's rules on non-GAAP measures contained in both Regulation G and Regulation S-K Item 10(e), as applicable to the registrant.

Other regulators may also issue guidance on the initial application of IFRS 18. Entities should use the guidance issued by regulators in the jurisdictions where they have filing obligations as their primary source of information.

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Further information

If you have any questions about IFRS 18, please speak to your usual Deloitte contact. For more information, please see our Deloitte IAS Plus website.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of financial and sustainability reporting literature. iGAAP on DART allows access to the full IFRS Accounting Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Accounting Standards
- illustrative financial statements for entities reporting under IFRS Accounting Standards.

In addition, our sustainability reporting volumes of iGAAP provide guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to iGAAP on DART, start the application process and select the iGAAP package.

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