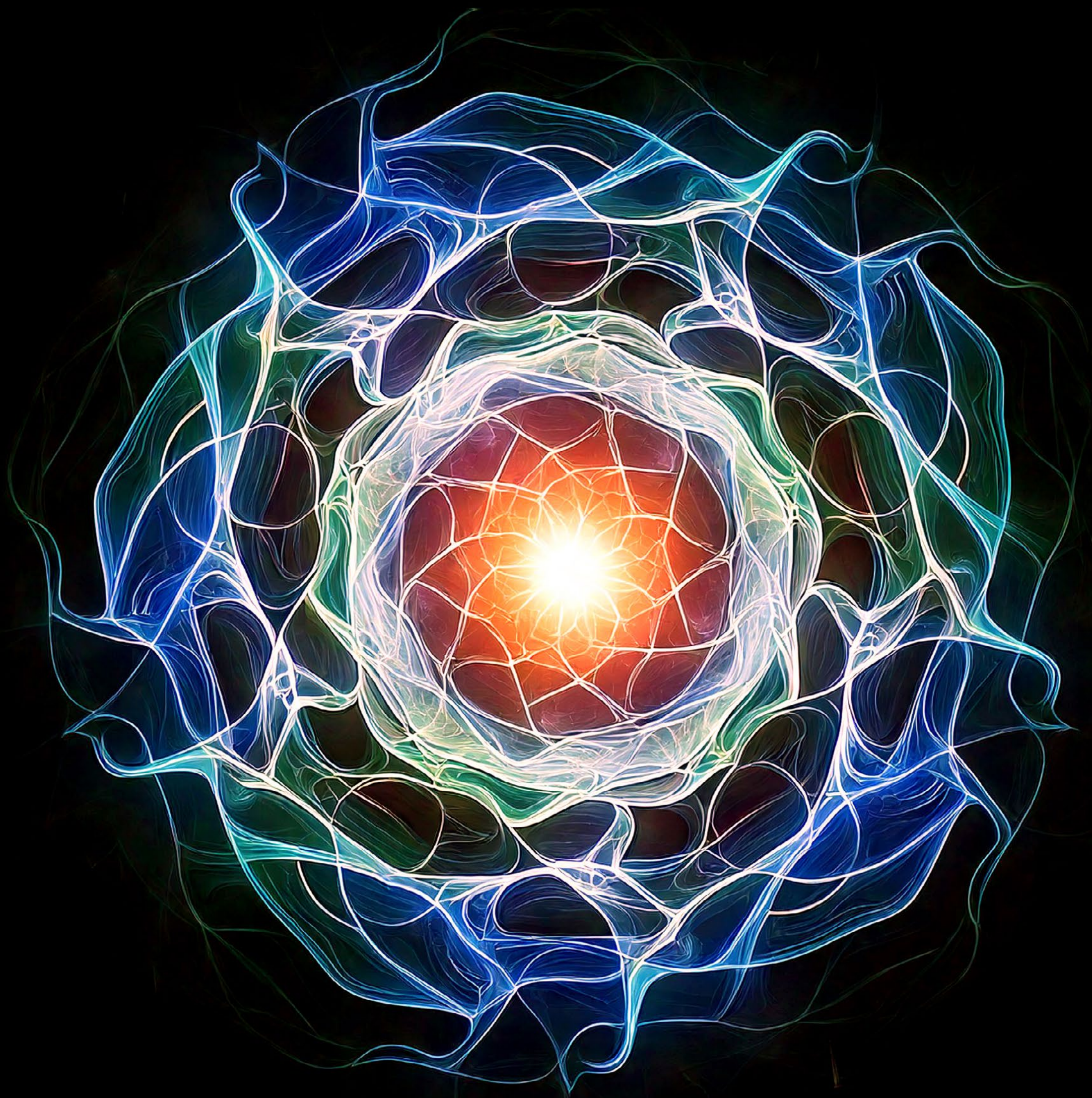

IFRS 18 for Alternative Industry:

From presentation to performance

December 2025

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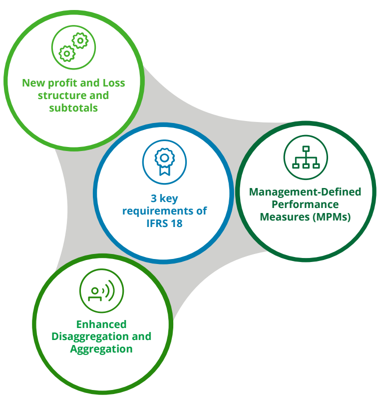
IFRS 18 overview and strategic implications for alternative industry

The financial reporting landscape is entering a new chapter with the introduction of IFRS 18 – Presentation and Disclosure in Financial Statements. Designed to enhance transparency and comparability, the new standard fundamentally reshapes how companies present their performance and financial position. For alternative investment entities – ranging from private equity and real estate funds to private debt entities and infrastructure vehicles, IFRS 18 is far more than a routine accounting update. It challenges long – standing practices and redefines how managers articulate their performance narrative to both investors and regulators.
IFRS 18 introduces three key requirements, outlined below:



Focus on the profit and loss: A consistent layout

One of the most significant changes introduced by IFRS 18 is the requirement for a **consistent and comparable profit or loss statement**. Under the new standard, entities must present their income and expenses within five defined categories:

- Operating
- Investing
- Financing
- Income taxes
- Discontinued operations

Additionally, IFRS 18 introduces two new mandatory subtotals:

- Operating profit or loss; and
- Profit before financing and income taxes

Classification within these categories depends on an entity's **main business activities**, Under IFRS 18, classification within these categories is driven by an entity's main business activities. The standard introduces the concept of specified main business activities, defined as either investing in assets or providing financing to customers. For entities in the alternatives industry, the most relevant specified main business activity would be investing in assets.

Entities whose primary activity is investing in financial or non – financial assets – such as investment funds, real estate investment vehicles, or private equity, private debt or infrastructure funds – must present most income and expenses related to those assets within operating. This includes fair value changes, rental income, and related costs, ensuring that the statement of profit or loss reflects the entity's core investment performance.

The three core categories

Operating

Includes results from the entity's main business activities and all income and expenses not classified elsewhere. For investment entities, this typically covers fair value gains/losses, interest, dividends, rental income, and related costs. Volatile or non – recurring items are also included here.

Investing

Comprises income and expenses from investments in associates, joint ventures, and unconsolidated subsidiaries accounted for using the equity method, as well as returns from cash, cash equivalents, and other assets that generate income largely independently of the entity's other resources, such as debt or equity instruments and investment properties. If investing in assets is the main business activity, these items would be instead presented in Operating.

Financing

Covers income and expenses arising from liabilities used to raise finance, including bank borrowings, debt instruments, and related transaction costs. It also includes interest and other effects of changes in interest rates for liabilities not used to raise finance, e.g., lease obligations or pension liabilities.

For entities whose main business is providing financing to customers, these items are classified as Operating. Derivatives linked to financing transactions are also included here; other derivatives are classified in the same category as the element being covered or hedged.

Anticipated challenges and sector impacts under IFRS 18

While the operational impact of IFRS 18 will be felt most immediately within alternative investment funds the ripple effect extends well beyond the fund level.

In practice, these structures depend on an interconnected ecosystem of service providers to deliver timely, accurate, and compliant reporting. Administrators, AIFMs, accountants, and outsourced partners form the backbone of the financial reporting supply chain, and their ability to interpret, implement, and industrialize IFRS 18 will significantly influence how smoothly funds transition to the new standard.

Service providers frequently tailor profit or loss formats to reflect each fund's strategy or investor expectations. IFRS 18's prescribed subtotals and stricter classification rules will reduce this flexibility, requiring updates to templates, mapping logic, and review procedures. As each asset class carries its own classification nuances, providers must rapidly adapt and scale these changes across all fund types they support.

Beyond revised statement structures, IFRS 18 introduces a critical new concept: management – defined performance measures (MPMs).

For alternative investment funds, MPMs represent both an opportunity and a challenge. They offer a formal mechanism for Management to explain performance in the way they monitor it – whether through adjusted EBITDA, adjusted net rental income, or adjusted operating profit, metrics that often resonate more with investors.

Understanding the technical impact on service providers is only the starting point. The real challenge lies in translating IFRS 18 into day – to – day processes, systems, and controls across the entire reporting chain.

This shift brings several practical implications for both funds and their service providers:

Assessment of the main business activity

Under IFRS 18, the determination of whether a fund's primary activity is investing in assets or providing management services directly drives income and expense classification. For alternative fund structures – often involving multiple layers such as funds, master – feeders, SPVs, and operating platforms – this assessment becomes highly complex.

For **large real estate groups**, the challenge is even greater. These groups typically consolidate numerous subsidiaries with fundamentally different business models – investment properties focused on rental yield, development entities centered on construction and sales, asset – management companies, and operating businesses providing ancillary services. Each entity carries its own operational logic and revenue model, making the determination of the "main business activity" highly judgemental.

A misaligned or inconsistent assessment across subsidiaries can drive materially different classifications of rental income, disposal gains, service revenues, interest income, and fair value movements. This not only affects comparability across the group but also complicates consolidation, system configurations, and audit reviews, increasing the risk of classification disputes and disclosure overload.

Process and controls

Classification processes must be redesigned with stronger, multi – layer review mechanisms and enhanced control activities – particularly around MPM identification and reconciliation – to ensure consistent and auditable treatment of transactions across asset classes, SPVs, and fund structures.

Systems and data models

Core systems, chart – of – accounts structures, and data models require redesign to support classification logic, MPM reconciliations, and enriched audit trails.

This is especially important where unrealized gains, carried interest, and fee mechanics significantly drive performance.

Reporting templates

Profit and loss statement formats, investor reporting packs, and internal dashboards must be updated to reflect IFRS 18's mandatory subtotals and standardized categories.

MPM governance and investor reporting integration

Funds must identify, define, validate, and reconcile MPMs, ensuring alignment between IFRS financial statements and public communications.

Operational coordination

Stronger coordination between fund teams, administrators, valuation agents, and technology partners will be required to ensure consistent data, synchronized timelines, and controlled implementation across complex structures.

Technical expertise and training

Upskilling teams – both in – house and at service providers – will be critical to correctly interpret IFRS 18, apply classification rules across asset class, and manage MPM disclosures with discipline.

To illustrate how IFRS 18 reshapes financial reporting in practice, the following section presents illustrative profit and loss statements for real estate, private equity, and private debt funds, highlighting the principal impacts arising from implementation.

Case study: IFRS 18 application in real estate investment and rental operations[1]

Illustrative example one
Real estate company investing in and renting out properties[1]

For entities whose main business activity is investing in and renting out properties, most income and expenses directly related to those operations – such as rental income, fair value changes on investment properties, and direct operating costs – are classified within operating.

This reflects the entity's specified main business activity of investing in assets, which takes precedence over the general definition of the Investing category under IFRS 18.

[1]This is only an illustrative example, and it does not replace the standard.

Statement of profit or loss applying IAS 1		
Rental Income	X	
Revenue from services to tenants	X	
Expenses from services to tenants	X	
Other property operating expenses	X	
Net rental income	**X**	
Employee benefits expenses	(X)	2
Depreciation and amortization	(X)	
Management fees	(X)	
Profit on disposal of investment property	(X)	
Valuation gains (losses) from completed investment property	(X)	
Valuation gains (losses) from investment property under development	(X)	
Subscription tax	(X)	
Valuation gains (losses) on equity instruments measured at FVPL	(X)	4
Other expenses	(X)	
Operating profit	**X**	
Interest income on loans to joint ventures and associates	X	3
Interest income on finance leases	X	1
Dividend income	X	
Finance costs	X	2
Share profit or loss of joint venture accounted for using equity method	X	3
Finance income	X	
Profit before tax	**X**	
Other comprehensive income- Items that may be reclassified to profit or loss • Currency translation difference • Fair value gain or losses on debt instruments measured at fair value through OCI	(X)	
Other comprehensive income of the year	**X**	
Total comprehensive income of the year	**X**	

	Statement of profit or loss applying IFRS 18		
	Rental Income	X	Operating
	Revenue from services to tenants	X	
	Expenses from services to tenants	X	
	Other property operating expenses	X	
	Net rental income	**X**	
	Employee benefits expenses	(X)	
	Depreciation and amortisation	(X)	
	Management fees	(X)	
	Profit on disposal of investment property	(X)	
	Valuation gains (losses) from completed investment property	(X)	
	Valuation gains (losses) from investment property under development	(X)	
	Subscription tax	(X)	
1	Interest income on finance lease	(X)	
2	Net foreign exchange on operating activities	(X)	
	Gains and losses on derivatives from operating activities	(X)	
	Operating profit	**X**	**Required subtotal**
	Interest income from cash and cash equivalent	X	Investing
3	Interest income on loan investments in joint ventures and associates accounted for using equity method	X	
3	Share profit or loss of joint venture and associated accounted for using equity method	X	
2	Net foreign exchange on investing activities	X	
	Dividend income	X	
4	Valuation gains (losses) on equity instruments measured at FVTPL	X	
	Profit before financing and income tax	**(X)**	**Required subtotal**
2	Interest expense on borrowings and lease liabilities	(X)	Financing
2	Interest expenses on defined benefits plans	(X)	
2	Net foreign currency gains or losses on borrowings	(X)	
2	Gains and losses on derivatives from financing activities	(X)	
	Profit before taxes	**X**	
	Income tax	**X**	**Income tax**
	Profit of the year	**X**	**Required subtotal**
	Other comprehensive income- Items that may be reclassified to profit or loss • Currency translation difference • Fair value gain or losses on debt instruments measured at fair value through OCI	(X)	OCI
	Other comprehensive income of the year	**X**	
	Total comprehensive income of the year	**X**	

Figure 1: Consolidated profit and loss for an entity that has a specified main business activity of investing in investment properties.

What has changed?

01. Rental income and interest income on finance leases move to operating:

Rental income and effective – interest – rate (EIR) income on finance leases are presented within operating, because investing in and renting out investment properties is a main business activity. With no specified main business activity of investing in assets, these interests and rental income would have been presented under investing.

02. Finance costs are now split and classified based on new rules:

A. Foreign exchange gains and losses follow the classification of the underlying item. Foreign exchange differences are classified in the **same category** as the income and expenses associated with the item giving rise to the FX movement, unless this requires **undue cost or effort**.

Examples:

i. FX gain/loss on **rental receivables** ⟶ Operating.

ii. FX gain/loss on **financing liabilities** ⟶ Financing.

B. Derivative gains and losses follow the classification of the item whose risk they hedge. IFRS 18 requires derivatives to be classified consistently with the underlying item or risk being hedged, unless doing so involves undue cost or effort. If classification cannot be determined without disproportionate effort, the standard allows these gains/losses to be classified within operating as a simplification.

Examples:

i. Derivative hedging interest rate risk on **financing liabilities** ⟶ Financing.

ii. Derivative hedging FX risk on **PPE or investment** properties ⟶ Operating.

C. Interest expense on lease liabilities is always financing. Even when leasing is a core business activity, interest in lease liabilities must be classified within **Financing.** This may create mismatches, for example, an intermediate lessor presenting:

i. Interest income from **finance subleases** ⟶ Operating**,** but

ii. Interest expense on **head – leases** ⟶ Financing.

D. Interest expense on defined benefit obligations moves to financing. Previously included within administrative or staff expenses, interest on defined benefit liabilities must now be presented in the financing category.

03. Income and expenses from equity – accounted associates and joint ventures move to investing.

Under IFRS 18, all results from associates and joint ventures accounted for using the equity method are presented within the investing category. (See the Deloitte observation box below).

04. Valuation gains and losses on equity instruments measured at FVTPL are classified in investing.

Fair value gains and losses on equity instruments at FVTPL are presented within investing, because these assets generate returns independently of the entity's primary revenue – generating activities.

Deloitte observation

Entities whose main business activity involves investing in assets may face judgement calls when determining the presentation of income and expenses from joint ventures and associates under IFRS 18. While the standard explicitly requires that equity – accounted joint ventures and associates to be classified within the Investing category, certain investments – particularly those measured at fair value or cost that are integral to the entity's core business – may prompt questions about whether an operating presentation would better reflect the underlying business model. For example, real estate structures that invest in property – holding vehicles may generate cash flows and performance metrics closely aligned with the entity's core operations, raising practical considerations for how best to communicate financial performance to users of the financial statements.

A similar challenge arises when considering loans to joint ventures and associates, which often operate as extensions of the investment strategy in real estate structures.

While IFRS 18 typically results in loan – related income and expenses being classified in the investing category, classification becomes more nuanced when such loans qualify as long – term interests under IAS 28, potentially suggesting alignment with the presentation of the associated investment.

Distinguishing these exposures from standard investment loans therefore requires careful judgement and a clear understanding of their role within the broader investment structure.

Case study: IFRS 18 application in real estate development[2]

For real estate developers, development and sale of properties is the main business activity. Revenue from sales, construction costs, and related expenses would therefore be classified under operating, reflecting the main business.

Statement of profit or loss applying IAS 1		
Revenue from the sale of completed inventory property	X	
Revenue from the sale of inventory property under development	X	
Cost of sales-inventory property	X	
Gross profit	**X**	
Employee benefits expenses	(X)	
Depreciation and amortization	(X)	
Management fees	(X)	
Valuation gains (losses) on equity instruments measured at FVPL	(X)	2
Other expenses	(X)	
Operating profit or loss	**X**	
Interest income on loans investments	X	1
Dividend income	X	
Finance costs	X	4
Finance income	X	
Share profit or loss of joint venture accounted for using equity method	X	3
Profit before tax	**X**	
Income tax	**X**	
Profit of the year	**X**	
Other comprehensive income- Items that may be reclassified to profit or loss • Currency translation difference • Fair value gain or losses on debt instruments measured at fair value through OCI	(X)	
Other comprehensive income of the year	**X**	
Total comprehensive income of the year	**X**	

	Statement of profit or loss applying IFRS 18		
	Revenue from the sale of completed inventory property	X	Operating
	Revenue from the sale of inventory property under development	X	
	Cost of sales-inventory property	X	
	Gross Profit	**X**	
	Employee benefits expenses	(X)	
	Depreciation and amortisation	(X)	
	Management fees	(X)	
	Gains (losses) on disposal of tangible and intangible assets	(X)	
4	Net foreign exchange on operating activities	(X)	
4	Gains and losses on derivatives from operating activities	(X)	
	Operating profit	**X**	**Required subtotal**
	Interest income from cash and cash equivalent	X	Investing
1	Interest income on loan investments	X	
3	Share of profit of joint venture and associated accounted for using equity method	X	
	Dividend income	X	
2	Valuation gains (losses) on equity instruments measured at FVTPL	X	
	Net foreign exchange on investing activities	X	
	Profit before financing and income tax	**(X)**	**Required subtotal**
4	Interest expense on borrowings and lease liabilities	(X)	Financing
4	Interest expenses on defined benefits plans	(X)	
4	Net foreign currency gains or losses on borrowings	(X)	
4	Gains and losses on derivatives from financing activities	(X)	
	Profit before tax	**X**	
	Income tax		**Income tax**
	Profit of the year		**Required subtotal**
	Other comprehensive income- Items that may be reclassified to profit or loss • Currency translation difference • Fair value gain or losses on debt instruments measured at fair value through OCI	(X)	**OCI**
	Other comprehensive income of the year	**X**	
	Total comprehensive income of the year	**X**	

Figure 2: PL for an entity that has a main business activity of developing and selling investment properties.

[2]This is only an illustrative example, and it does not replace the standard.

What has changed?

01. Interest income on loan activities is now in the investing category, because providing financing to customers is not the entity's specified main business activity.

02. Refer to illustrative example one, point 4: fair value gains and losses on equity instruments measured at FVTPL are classified in investing.

03. Income and expenses on investments in joint ventures and associates accounted for using equity method are now classified in investing.

04. Refer to illustrative example one, point 2: Revised classification rules for finance costs, foreign exchange gains/losses, interest on defined benefit obligations, and derivative gains/losses.

Deloitte observation

For goodwill impairment, IFRS 18 does not explicitly prescribe a category. Entities are required to apply consistent classification over time, either within operating (as a residual category) or investing, depending on which presentation best reflects their business model.

For entities that develop and sell properties, the classification of income such as rental income or finance lease interest will also depend on the determination of the main business activity and could therefore be classified either within investing or operating.

Case study: IFRS 18 application for private debt and private equity entities[3]

For entities whose **main business activity is investing in financial assets**, most income and expenses – such as **fair value gains and losses, interest, dividends, and related costs** – are classified under operating, reflecting the entity's core investment activities. Similarly, **income from cash and cash equivalents** is also presented within the operating category.

Statement of profit or loss applying IAS 1		
Interest income	X	
Dividend income		
Other net changes in FV of financial assets at FVTPL	X	2
Investment in associates and JV measured at FV	X	1
Net foreign currency gains or losses on cash and cash equivalents	X	
Total net income	**X**	
Carried interest expense/(recovery)	(X)	
Management fee	(X)	
Legal and professional expenses	(X)	
Transaction costs	(X)	
Other expenses	(X)	
Subscription tax	(X)	
Share profit or loss of associate and JV accounted for using the equity method	(X)	1
Total operating expenses	**(X)**	
Operating profit or loss	**X**	
Finance costs	(X)	3
Distributions to holders of redeemable shares	X	
Total finance cost	**(X)**	
Profit before tax	**X**	
Withholding tax expense on dividend income	(X)	
Increase in net assets attributable to holders of redeemable shares net of tax	**X**	

	Statement of profit or loss applying IFRS 18		
	Interest income calculated using the EIR (arising from the main business activity)	X	
	Dividend income	X	
	Other net changes in FV of financial assets at FVTPL	X	
3	Net foreign currency gains or losses on operating activities	X	
1	Investment in associates and JV measured at FV		
2	Gains and losses on derivatives on operating activities	X	**Operating**
	Interest income from cash and cash equivalents	X	
	Total net income	**X**	
	Carried interest/(recovery)	(X)	
	Management fee	(X)	
	Legal and professional expenses	(X)	
	Subscription tax		
	Transaction costs	(X)	
	Other operating expenses	(X)	
	Total operating expenses	**X**	
	Operating profit	**X**	**Required subtotal**
1	Shares profit or loss of associate and JV accounted for using the equity method	X	**Investing**
3	Net foreign currency gains and losses from investing activities	X	
	Increase in net assets before financing and tax	**(X)**	**Required subtotal**
3	Interest expense on borrowings	(X)	
3	Interest expense on other liability	(X)	
	Distribution to holders of redeemable shares	(X)	**Financing**
3	Net foreign currency gains or losses on borrowings	(X)	
2	Gains and losses on derivatives from financing activities	(X)	
	Increase in net assets attributable to holders of redeemable shares before tax	**X**	
	Withholding tax expense on dividend income	(X)	
	Increase in net assets attributable to holders of redeemable shares net of tax	**X**	**Required subtotal**

Figure 3: PL for an entity that has a specified main business activity of investing in financial assets.

[3] This is only an illustrative example, and it does not replace the standard.

What has changed?

01. Investment in associates and joint ventures measured at fair value will continue to be classified in the operating category, as the entity's main business activity is investing in financial assets. While the investments in associates and joint ventures measured at equity method will now be classified in the investing category even when the entity's main business is investing in such financial assets.

02. Gains and losses on derivatives are classified based on the activity they relate to:

A. Derivatives related to **operating activities** ⟶ Operating.

B. Derivatives related to **financing activities** ⟶ Financing.

03. Refer to Illustrative example one, Point 2:
Classification of finance costs, foreign exchange gains/losses, interest on defined benefit obligations, and derivatives.

Deloitte observation

For **investment in associates and joint ventures measured at FVTPL**, the entity should assess whether investing in such assets constitutes a main business activity. If it does, the income and expenses related to these assets should be classified under operating, reflecting the entity's core investment activities.

For **units classified as financial liabilities under IAS 32**, carried interest distributions are currently recognized either as a finance cost in the statement of profit or loss or within the statement of changes in net assets as a NAV allocation. IFRS 18 clarifies that such distributions expenses on units classified as financial liabilities must be presented within the financing category.

This raises the question of whether recognition within the statement of changes in net assets as a NAV allocation remains permissible, creating an area that may require judgement and careful consideration.

Achieving IFRS 18 readiness

Turning compliance into opportunity

While many of the challenges discussed throughout this article stem from the judgement-driven nature of IFRS 18, effective implementation can also serve as a catalyst for improving performance communication. By aligning financial statement presentation more closely with the substance of investment strategies, alternative funds can enhance transparency and provide more decision-useful information to investors.

The diagram below brings these themes together, summarising the key implementation challenges, the required enablers, and the potential value that a well-executed IFRS 18 transition can unlock.

Translating IFRS 18 presentation and operational complexity into actionable insights and strategic value.

Your challenges *will lead to* **Your benefits**

- Assessment of specified main business activities for diversified groups (with multiple business activities[1] and reporting GAAPs)
- Updating reporting systems, processes, and controls
- Selecting a relevant income and expense allocation methodology (Cash pooling, derivatives Forex impact)

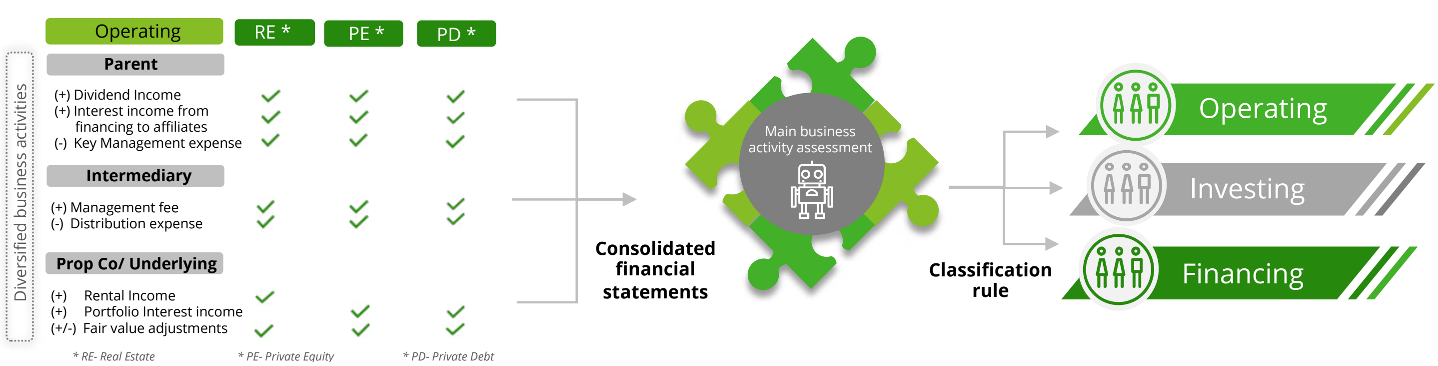
- Controlled implementation timeline
- Improving performance transparency while reinforcing compliance and governance
- Accurate classification and compliance with the standard requirements
- Improved transparency with standardized presentation of MPMs enhancing investor confidence with defined KPIs

[1] *In RE groups with multiple activities, leading to challenges on income recognition:*
Ex. Holding companies provide investment & financial services while SPVs own properties and earn rentals.
Ex. RE Groups having a mixed of "build & sell" and "buy & rent" strategies.

Our added value

Structured methodologies, relevant expertise and customized solutions to help you achieve IFRS 18 compliance efficiently.

- **System and Process Review**: Advise on ERP/reporting tool configuration for automated classification and compliance with service providers.
- **Main business activity identification**: Assistance in identifying main business activities in line with IFRS 18 requirements and industry benchmark.
- **Income and Expense Classification**: Create consistent, defendable mapping of income/expenses to categories; align with peers for comparability.
- **Stakeholders Communication**: Investors expect clarity and comparability., Transparent performance reporting is no longer optional but a driver of confidence and capital flows.



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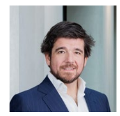

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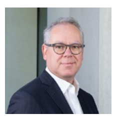

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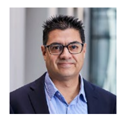

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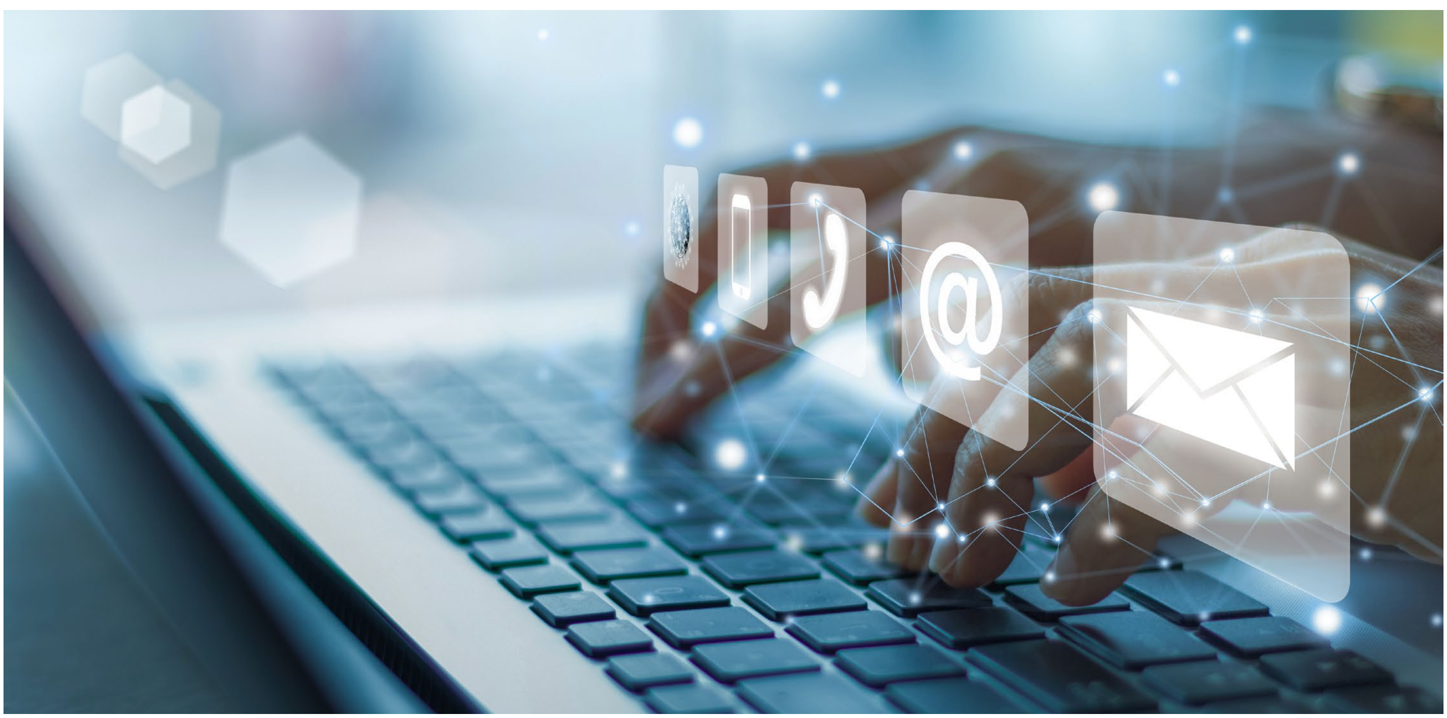

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