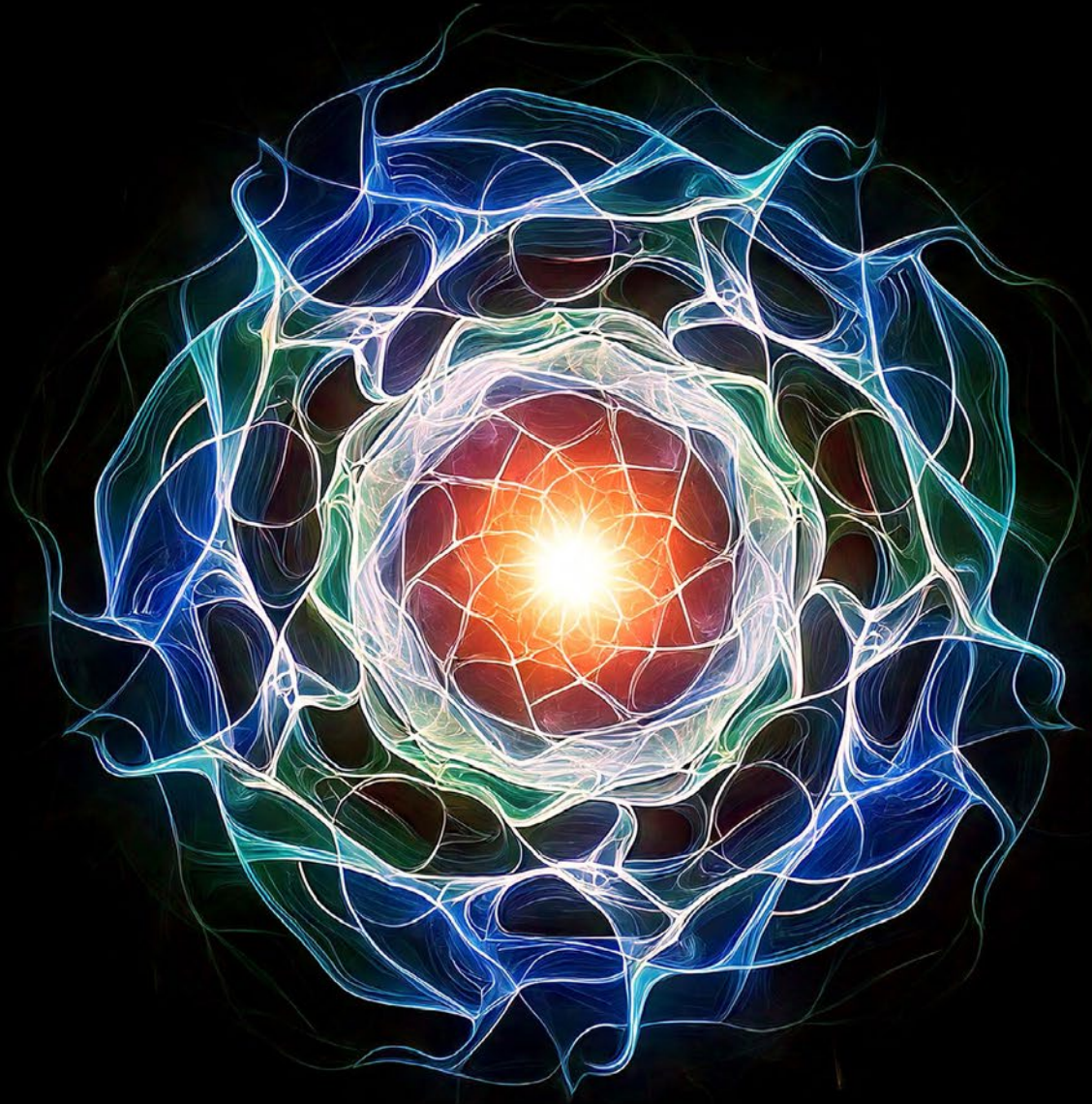


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## Unpacking the hurdles of IFRS 18

**Commercial and industrial  
sector specific challenges**

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# Introduction

IFRS 18 is a presentation standard. Yes, but! Its impact reaches far deeper into how Commercial & Industrial (C&I) groups define their business model, classify performance, and tell their financial story. For many, the key changes are not the new subtotals; it is the opportunity to clearly identify the activities that drive performance and to classify income and expenses in a more meaningful and structured way.

Learn more about the changes IFRS 18 presents from our **"Introduction to IFRS 18"** article



As companies begin to understand the standard, five challenges repeatedly surface. The new requirements aren't technical footnotes, they reshape how your organization reports, communicates, and explains performance both internally and externally.



# Challenge 1

## Defining your main business activity could be a reporting maze

IFRS 18 requires entities to classify income and expenses based on their **main business activity**. However, for many groups, particularly those with financing companies (FinCos) in Luxembourg and operating companies (OpCos) elsewhere, this assessment is far from straightforward.

What may appear to be a core activity in standalone financial statements does not necessarily align with the group's primary activity in consolidated reporting. For instance, investments in unconsolidated subsidiaries that generate dividend income may constitute an operating or specified main business activity in a Luxembourg holding company's (HoldCo) standalone accounts. Yet, these activities are eliminated on consolidation, potentially reshaping the group's overall activity profile.

In practice, groups often engage in multiple activities, some of which may individually qualify as "specified main business activities" under IFRS 18. Consider a manufacturing company whose primary business is producing and selling goods, but which also owns warehouses used for storage. During periods of reduced production, the company may lease excess warehouse space to third parties, generating rental income that could, in certain circumstances, qualify as a specified main business activity. This gives rise to a key judgment under IFRS 18: should such leasing activities be viewed as part of the group's core performance, or merely incidental to its manufacturing operations? Management must therefore

carefully assess which activities genuinely drive performance at the group level, as this determination directly influences how related income and expenses are presented in the statement of profit or loss. Ultimately, IFRS 18 requires CFOs and controllers to articulate, and support, a consistent narrative when determining the main or specified main business activity at both entity and group levels. In organizations where financing flows are intertwined with operational earnings, these judgements can have significant and far-reaching implications for the presentation of the profit or loss statement.



**Your main business activity may differ between standalone and consolidated reporting, and the classification implications are significant. Without a clearly articulated group-level judgement, the same income stream may convey different performance narratives across financial statements.**



## Challenge 2

Central treasury and foreign exchange volatility: Misclassification could mislead investors

Treasury hubs in Luxembourg bring efficiency, but also complexity. Cash pooling, centralized liquidity, and intercompany Foreign exchange (FX) swings may be viewed as operational or financing activities, depending on perspective.

Under IFRS 18, the presentation of interest income and expenses arising from central treasury and cash-pooling arrangements is directly linked to an entity's assessed main (or specified) business activity. For example, a group treasury or FinCo may present interest income from lending to subsidiaries within operating profit, as financing constitutes its core activity. In contrast, operating subsidiaries participating in the same arrangements would typically classify the corresponding interest expense within the financing category.

At the consolidated level, these intra-group interest flows are eliminated. As a result, amounts recognized as operating income in the treasury entity's standalone financial statements do not translate into the group's operating profit. This creates a significant presentation and mapping challenge: performance reflected at the entity level may not align with consolidated operating results, making it more difficult for users to understand the contribution of treasury activities to overall group performance. Groups must therefore carefully assess whether treasury activities constitute a specified main business activity and ensure the resulting classifications support a consistent performance narrative at both entity and consolidated levels.

Separately, IFRS 18 requires foreign exchange differences to be classified based on the nature of the underlying transactions or balances, an area already subject to debate in recent IFRIC discussions. FX movements often arise from a complex web of transaction, including treasury funding, operational payables, intercompany loans, and hedging structures, frequently creating overlapping exposures. Determining whether FX should be classified within operating, investing, or financing activities therefore requires a granular mapping of exposures and a clear understanding of the underlying drivers, often beyond the capabilities of existing systems.

Additional complexity arises in consolidation. Although intercompany balances are eliminated on consolidation, foreign exchange differences on those monetary items generally remain in profit or loss. As a result, they still require classification within the consolidated statement of profit or loss. This has led to differing views on the appropriate classification of such amounts. IFRIC discussions have highlighted differing views: some support classifying FX based on the nature of the underlying transaction in each entity's separate financial statements, with eliminations occurring within the same category on consolidation; others favor a group-level perspective that reflects only external exposures, under which FX would be recognized solely within the operating category at the consolidated level. This divergence underscores the practical challenge for groups in establishing a consistent and defensible classification approach under IFRS 18.

For multinational groups, the challenge extends beyond technical compliance. The assessment of whether cash pooling forms part of the group's main business activity can fundamentally reshape interest classification across entities and on consolidation. At the same time, unresolved judgment regarding the classification of FX, particularly for intercompany balances eliminated in profit, may expose inconsistencies that regulators and investors are likely to scrutinize well before systems and policies are fully aligned.



**First, determine whether central treasury and cash pooling constitute a main or specified business activity at each reporting level. Second, establish a clear and well-documented policy for mapping FX, including intercompany balances, to operating, investing, or financing categories. Without early alignment between treasury, consolidation, and reporting teams, IFRS 18 classifications risk becoming inconsistent, difficult to defend, and costly to remediate at year-end.**

## Challenge 3

# Derivatives aren't one-size-fits-all: The same instrument could land in operating or financing, reshaping your P&L

In commercial and industrial groups, derivatives may be used to hedge operations, optimize capital structure, or manage financial risk. Under IFRS 18, however, the focus is not on the instrument itself, but on its purpose. A derivative's classification in profit or loss depends on the nature of the underlying exposure it is intended to manage.

For example, a forward contract to purchase raw materials is, in substance, linked to operating activities, whereas an interest rate swap used to hedge a corporate bond issuance would typically relate to financing.

Similarly, derivatives used in treasury activities—such as managing liquidity or foreign currency exposures—may span operating and financing categories, depending on the underlying risk. This approach is consistent with recent IFRIC discussions (November 2025), which emphasized that gains and losses on derivatives should be presented in the same profit or loss (P&L) category as the income or expenses they economically hedge or relate to, rather than defaulting to operating, unless doing so would involve undue cost or effort.

Accordingly, derivatives are not classified uniformly under IFRS 18. Options over non-controlling interests (NCIs) illustrate this complexity. Their classification requires an assessment that goes beyond the instrument's legal form to consider the risk being managed and its role within the group's business model.

For instance, a written put option over an NCI typically gives rise to a financial liability under IAS 32 *Financial Instruments: Presentation* and is often viewed as part of the group's capital structure, as it reflects a potential obligation to acquire additional ownership. Gains or losses arising from

such instruments may therefore be aligned with the financing category. Similarly, call options over NCIs may also primarily relate to future ownership changes rather than operating performance, although in some cases they may be linked to maintaining operational control over key subsidiaries.

As a result, the same type of derivative can affect different profit-or-loss categories depending on the underlying exposure it manages. Groups must carefully assess whether these instruments reflect operating performance or capital structure decisions, ensuring that their presentation in profit or loss faithfully represents the economic substance of the arrangement.

The derivative classification is no longer a technical afterthought; it is a direct reflection of how management explains performance and risk.



**For many commercial and industrial groups, derivative classification will require revisiting documentation, treasury strategies, and main business activity assessments to ensure that gains and losses are presented in a category that faithfully reflects their underlying economics.**

## Challenge 4

# Not every KPIs makes the cut: Defining management performance measures under IFRS 18 is tougher than it looks

Commercial and Industrial companies thrive rely heavily on KPIs—gross margin bridges, production metrics, adjusted earnings, and operational indices—to explain performance. But IFRS 18 draws a clear line; if a metric communicates management’s view of performance, it may qualify as a management performance measure (MPM), even if it is not explicitly labelled as such.

Importantly, while headline KPIs may fall outside the definition, the underlying drivers used to explain them may not. Once a metric meets the definition of an MPM, it triggers mandatory requirements, including full reconciliations to IFRS measures and transparent disclosures.

For example, many companies present profit/performance growth (%) as a headline KPI. On its own, revenue growth is not an MPM, as it is a ratio derived from IFRS-defined revenue. However, in investor communications, management often explains profit/performance growth through adjusted operating profit, normalized gross margin, or adjusted EBIT. These adjusted measures modify IFRS numbers and may therefore meet the definition of MPMs. This creates a new and often underestimated risk: metrics that were not previously considered “regulated” may now fall within the scope of IFRS 18. As a result, companies may face additional disclosure requirements, including detailed reconciliations and clear explanations of how these measures reflect management’s view of performance.

Such performance metrics may create a new risk where KPIs you never treated as “regulated” now fall under IFRS 18 scrutiny with additional reconciliation and description required by the standard. An example of a MPM reconciliation published from the IASB (page 10) illustrates the requirements of MPM under IFRS 18.



**Under IFRS 18, performance reporting is no longer the responsibility of a single function. What is communicated to investors must align with what finance can reconcile and disclose, requiring early cross-functional coordination to ensure completeness of requirements and to avoid mixed signals and credibility risks.**

20x2 (in currency units)					
	MPM	Revenue adjustment	Property tax	Restructuring	Measure specified by IFRS Accounting Standards
Revenue		(6,200)	-	-	
Cost of goods sold				(4,990)	
General and administrative expenses		-	(2,500)	(410)	
<b>Adjusted operating profit / Operating profit</b>	<b>55,370</b>	(6,200)	(2,500)	(5,400)	<b>41,270</b>
Income and expenses from borrowings		-	-	(600)	
Income tax expense		961	625	900	
<b>Adjusted profit / Profit</b>	<b>40,075</b>	(5,239)	(1,875)	(5,100)	<b>27,861</b>
Profit attributable to non-controlling interests (NCI)		-	-	(300)	

## Challenge 5

# Your P&L is only as strong as your systems: Outdated controls and charts of accounts could silently undermine every number

One of the more hidden challenges with IFRS 18 lies in systems and charts of accounts that are not designed to map transactions into operating, investing or financing categories with the level of precision the standard now requires.

In high-volume commercial and industrial environments—characterized by production cycles, cost allocations, project accounting and inventory flows—financial reporting depends heavily on automated processes. If cost centers and account structures are not aligned with IFRS 18 logic, misclassifications can quietly accumulate, distorting key performance subtotals without immediate visibility.

A clear example is FX differences. As discussed in the second challenge, IFRS 18 requires FX gains and losses to be classified in the same category as the underlying transaction (operating, investing, or financing). In practice, this means FX arising on supplier payables, inventory purchases, intercompany funding, or capital expenditure can no longer be presented within a single, generic FX line.

The challenge becomes even more complex in the context of leasing arrangements. Under IFRS 16 Leases, different components of a lease—such as depreciation of the right-of-use asset, interest in the lease liability, and service or non-lease components—may already be presented in different P&L categories. When leases are denominated in a foreign currency, exchange differences may arise in both the lease liability and associated payments. This raises a critical question: should those Forex movements follow the financing classification of lease interest, or the operating nature of the underlying lease payments or services?

Addressing this requires systems capable of tracing each FX movement back to its originating transaction and mapping it consistently to the same P&L category as the underlying flow.

For many commercial and industrial groups, this will require redesigning ERP tagging, treasury interfaces, and chart-of-accounts structures to capture transaction purpose at source. Without these enhancements, finance teams risk relying on manual reallocations at period end, an approach that is not only inefficient but increasingly difficult to defend under IFRS 18 scrutiny.



**IFRS 18 classification will only be as reliable as the data your systems capture at source. If ERPs, cost centers, and treasury platforms cannot trace transactions and related FX back to their underlying activity, finance teams will be forced into manual adjustments and judgement calls that do not scale in high-volume industrial environments.**

For commercial and industrial companies based in Luxembourg, the question is no longer "Are we compliant?" It is "Are we telling the right story, and can we defend it?"

IFRS 18 challenges long held assumptions about what belongs to where and why. Organizations that prepare early will be able to shape their IFRS 18 narrative with clarity and confidence. Those that delay risk reacting under pressure, explaining inconsistencies rather than presenting performance.

Evaluate your organization's readiness for IFRS 18 by completing our [readiness self-assessment questionnaire](#). You will then receive a complimentary **one-hour confidential consultation with one of our professionals** to discuss your results and define the next practical steps.

Short self-assessment **one-hour confidential consultation with one of our professionals**



## Are your financial statements ready for 2027?

Our professionals can help you:

- Assess how IFRS 18 will impact your reporting framework.
- Identify key areas of exposure in classification and disclosure.
- Design and implement a tailored transition roadmap.

Let's navigate IFRS 18 together and turn clarity into a competitive advantage.

Reach out to [luara@deloitte.lu](mailto:luara@deloitte.lu)



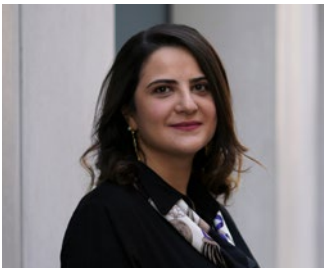
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