Deloitte | A Middle East Point of View - Summer 2025 | IFRS 18

Understanding IFRS 18: Revolutionizing financial statement presentation

In April 2024, the International Accounting Standards Board (IASB) introduced IFRS 18 – Presentation and Disclosure in Financial Statements, replacing the older IAS 1 standard. IFRS 18 is designed to improve how companies present their financial performance and position so that investors and other stakeholders can better understand and compare them. The standard is effective for annual reporting periods commencing on or after 1 January 2027, with the option for early adoption.

Why was IFRS 18 introduced?

The IASB introduced IFRS 18 to address concerns regarding the flexibility permitted under IAS 1 in financial statement presentation. This flexibility frequently resulted in inconsistent reporting practices, complicating the ability of investors and analysts to compare financial performance across companies and industries. IFRS 18 seeks to enhance transparency, clarity, consistency, and comparability in how financial performance is presented.

Key impacts of IFRS 18

IFRS 18 introduces a mandatory structure for the statement of profit or loss, delineating specific categories:

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

This structured approach is designed to standardize the reporting of financial performance thereby enhancing comparability across industries and jurisdictions. Previously, under IAS 1, companies had the flexibility to define and organize the income statement, which often resulted in inconsistent reporting practices and impeded effective benchmarking.

Additionally, IFRS 18 mandates that companies transparently disclose management-defined performance measures (MPMs). These non-IFRS metrics, such as adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) or core earnings, are utilized internally by management to convey financial performance. IFRS 18 stipulates enhanced disclosure requirements for MPMs, including reconciliation with IFRS-defined subtotals. This initiative aims to introduce consistency, discipline, and transparency in the use of non-generally accepted accounting principles (GAAP) performance measures, which have become increasingly prevalent in corporate reporting.

Key differences between IFRS 18 and IAS 1

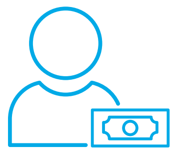
Area	IAS 1	IFRS 18
Statement of profit or loss	No mandatory format; Companies can use discretion in line with nature or function of expense	Introduces a mandatory structure: Operating, Investing, Financing, Income tax, and Discontinued operations.
Subtotals	Few subtotals are defined	Defines new IFRS-specific subtotals, i.e., operating profit, operating profit and income/expenses from integral associate and joint ventures, profit before financing and income taxes.
MPMs, such as adjusted EBIDTA	No specific guidance	• Clearly label MPMs; • Reconcile them to the nearest IFRS; defined subtotal (as mentioned above); • Explain why the MPM is useful; • Disclose change in how the MPM is calculated, if any.
Grouping of expenses	Either “by nature” or “by function” with flexibility	Requires additional disclosures explaining the nature of expenses when classified by function such as whether they relate to cost of sales, administrative costs or research and development.
Associates and joint ventures	Location in income statement varies	Investing category must include income/loss from equity-accounted associates and joint ventures (JVs) not integral to main business.

Impact on stakeholders

For companies:
Implementing IFRS 18 will necessitate significant modifications to reporting systems, chart of accounts, and internal processes. Companies are required to:

01. Review and potentially revamp their financial reporting procedures, as well as adapt IT systems to meet the requirements of the new reporting standards. This could entail changes to the accounting systems and processes, as well as controls to ensure accurate and compliant financial statement presentation.
02. Provide training to staff to ensure proper application and comprehension of new classifications and definitions.
03. Evaluate which performance measures qualify as MPMs and establish robust controls for their definition, calculation, and presentation.

While the initial implementation costs may be considerable, especially for complex multinational corporations, these changes are anticipated to result in more streamlined reporting and enhanced stakeholder credibility in the long term.



For investors and analysts:
IFRS 18 is anticipated to significantly impact investors by introducing a new structure and enhanced disclosures that will:

01. Facilitate improved comparisons between companies.
02. Bolster confidence in management-defined metrics.
03. Enable users to concentrate on the company’s core operating performance.

The standardization of subtotals and comprehensive MPM disclosures will be especially advantageous for equity analysts and credit rating agencies, who depend on clear and comparable data for valuation and risk assessment.

For regulators and auditors:
Regulators and auditors must adjust their oversight frameworks to ensure adherence to IFRS 18. Additionally, they will play a pivotal role in:

01. Assessing the reliability of MPM disclosures.
02. Ensuring the consistent application of classification rules.
03. Promoting transparency and consistency, and preventing misleading presentations.

Challenges and considerations

Despite its advantages, IFRS 18 presents several challenges:

- **Judgment in classification:** Determining what qualifies as operating, investing, or financing can be subjective, potentially leading to inconsistencies.
- **Increase in disclosure requirements:** Companies must ensure that accurate disclosures are included in the financial statements.
- **Interaction with local GAAP:** Companies operating in jurisdictions with local accounting standards or additional regulatory requirements may encounter reconciliation complexities.

To address these challenges, companies should plan proactively, involve cross-functional teams (accounting, finance, IT), and engage with auditors and regulators throughout the transition phase.

Key takeaways

IFRS 18 signifies a bold and essential advancement in modernizing financial reporting. By implementing structured subtotals, enhancing the disclosure of non-GAAP measures, and promoting improved disaggregation, the standard significantly increases the utility of financial statements for all users. For companies, it is imperative to begin preparations now by evaluating current reporting practices, identifying potential gaps, and planning for a seamless transition ahead of the standard’s effective date, as the standard would need to be applied retrospectively. While the path to implementation may be complex, the long-term benefits of increased comparability, consistency, and stakeholder confidence position IFRS 18 as a transformative milestone in financial reporting.

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