

IFRS 18: Getting ahead of the curve

Why now matters

IFRS 18—Presentation and Disclosure in Financial Statements—will become mandatory for periods commencing on or after 1 January 2027. While this date may seem distant, entities have limited time to prepare, particularly because the standard applies retrospectively. Companies will be required to restate 2026 comparative figures, requiring historical data that may not currently be available. Those that treat IFRS 18 as a year-end exercise may risk insufficient data, system gaps, and unreliable comparatives upon adoption.

Beyond presentation, IFRS 18 reshapes how performance is measured, reported, and governed. The introduction of newly defined income statement categories, formalized disclosures around management-defined performance measures (MPMs), and enhanced disaggregation requirements represents a shift in financial reporting towards greater transparency and comparability.

What’s changing: The three new categories

IFRS 18 introduces a mandatory structure for the statement of profit or loss, replacing the flexibility that characterized IAS 1.

Entities must now classify most income and expenses into the three newly defined categories:

- **Operating:** Activities central to the entity’s business model
- **Investing:** Returns from financial assets and investments that generate a return individually and largely independently
- **Financing:** Costs of funding the entity’s operations

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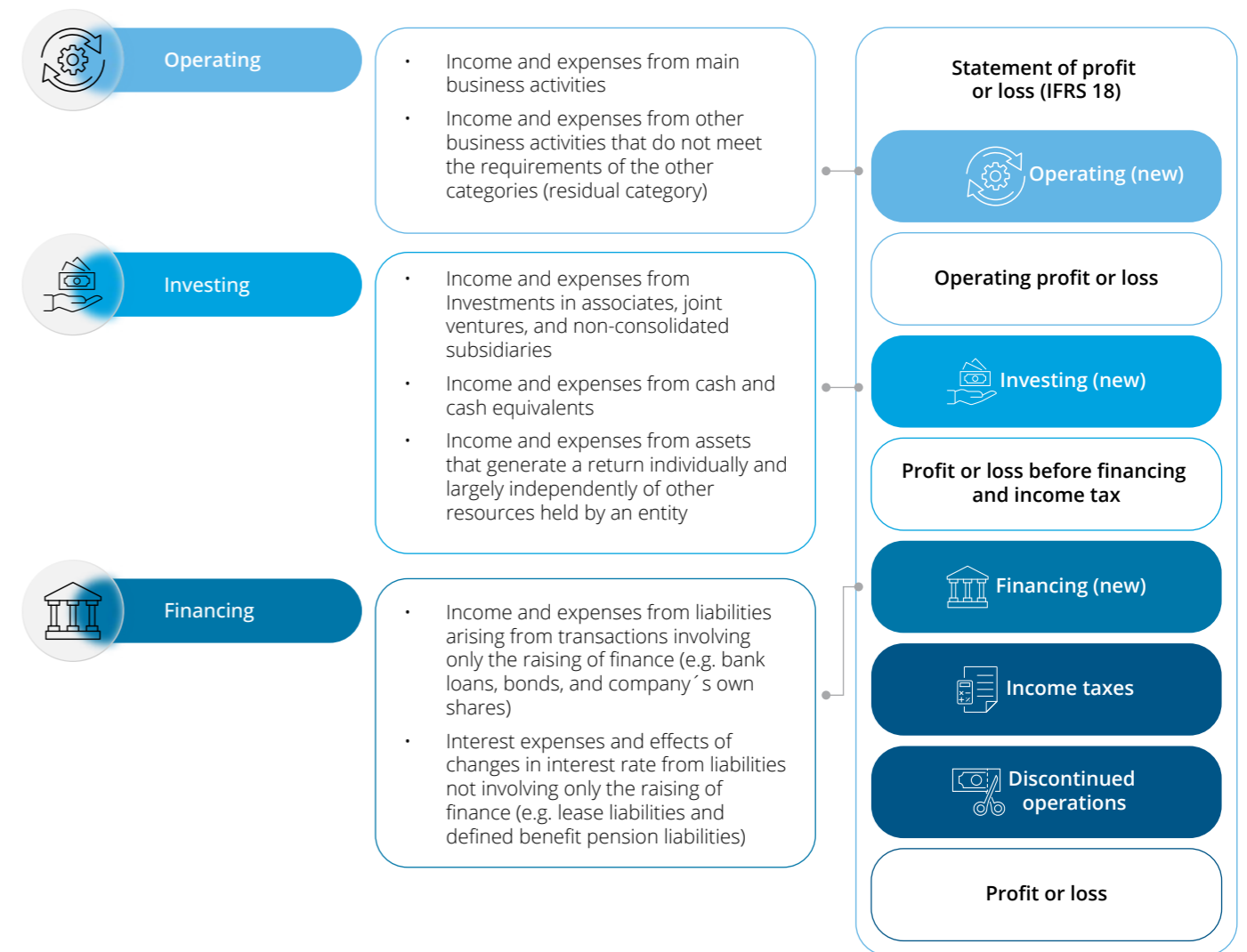


Figure 1: Overview of the three newly-defined categories mandated by IFRS 18

This structure mandates a defined “operating profit” subtotal which is a residual measure derived after allocating items to investing and financing. This is an important change as the “operating profit” metric is widely used in internal KPIs, debt covenants, and external communications. Changes in its composition may create perceived volatility to stakeholders, even where the underlying economics remain unchanged.

Additionally, IFRS 18 formalizes the treatment of MPMs, which are non-IFRS metrics such as “EBITDA” or “adjusted net profit.”

These must now be disclosed with clear definitions, reconciliations to IFRS-defined subtotals, and explanations of year-on-year changes. This moves alternative performance measures from largely unregulated territory into a structured, auditable framework. ➤

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A phased approach to implementation

Entities that engage early with a structured, phased approach will be better positioned to implement IFRS 18 in a controlled manner. The table below outlines an illustrative phased approach, key activities, and essential questions to guide preparation:

Phase	Key activities	Key considerations
1. Impact assessment	<ul style="list-style-type: none"> Map income statement to three categories; identify judgement areas and prepare “shadow” income statement Assess impact on operating profit, internal KPIs, and debt covenants Identify MPMs in scope (paragraphs 117–125); define calculation methodologies and establish governance Assess system capability, data granularity, and identify gaps in chart of accounts and consolidation 	<ul style="list-style-type: none"> Define main business activities (IFRS 18, paragraphs 49–51); Which items require judgement? How will reclassifications affect operating profit and debt covenants? Which non-IFRS metrics fall within scope? Are MPMs consistently defined across all communications? Can systems automatically categorize transactions? What system changes are needed before January 2027?
2. Implementation	<ul style="list-style-type: none"> Update systems and chart of accounts; implement data governance framework and establish reconciliation procedures Finalize MPM calculation methodologies; establish governance structures and document controls Review disclosures for materiality (paragraphs 41–43); reassess “other” line items and refine presentation Conduct parallel reporting under both IAS 1 and IFRS 18 formats; validate classifications and test controls 	<ul style="list-style-type: none"> Can systems automatically categorize transactions without manual workarounds? Are all system changes completed before January 2027? Are MPMs consistently defined across all communications? Are there documented reconciliations to IFRS subtotals? Have materiality thresholds been assessed? Are disclosures sufficiently granular to provide a “useful and structured summary”? Are controls operating effectively? Have financial statements been prepared under both IAS 1 and IFRS 18 formats?
3. Post-implementation	<ul style="list-style-type: none"> Communicate changes to audit committees, investors, analysts, and lenders; prepare investor relations materials Conduct final validation of all classifications and controls; validate 2026 comparative data completeness Prepare audit documentation; ensure all reconciliations and controls are documented Confirm all systems and processes are ready for 1 January 2027; finalize training and establish support structure 	<ul style="list-style-type: none"> Have the changes been communicated to all stakeholders? How will expectations around changes in operating profit be managed? Are all systems and processes ready for 1 January 2027? Are all manual workarounds eliminated? Is 2026 comparative data complete and reliable? Are reconciliations between old and new formats documented? Are all controls operating effectively? Is audit documentation complete and governance structures in place?

Act now

IFRS 18 is more than a presentation update. It is an intentional move towards clearer, more comparable financial reporting that will reshape how an entity measures, reports, and communicates performance. The phased approach provides a structured roadmap, but success depends on starting immediately.

Entities that delay may face significant risks: insufficient historical data for 2026 comparatives, system gaps that force manual workarounds, covenant breaches triggered by reclassifications, impact on measurement of performance due to change in underlying operating profit, and stakeholder confusion when new metrics are introduced. Conversely, those that engage early will be positioned to implement IFRS 18 in a controlled manner, manage stakeholder expectations, and emerge with clearer, more comparable financial reporting.

With the effective date fast approaching and retrospective application required, the time to act is today. The question is not whether to prepare, but whether to prepare now or scramble later.

By **Haresh Kumar**, Partner and **Duncan O’Sullivan**, Director, Accounting and Reporting Assurance, Deloitte Middle East