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IFRS 18

Presentation and Disclosure in Financial Statements



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Presentation and Disclosure in Financial Statements

Re-architecting the income statement, management-defined performance measures and the statement of cash flows: what every preparer, controller, CFO and auditor needs in place before 1 January 2027.

Issued: April 2024 Effective: 1 January 2027 (retrospective) Replaces: IAS 1 in full Early adoption: Permitted, subject to local endorsement by the relevant jurisdiction's standard-setting or regulatory authority

Executive Summary

IFRS 18 Presentation and Disclosure in Financial Statements was issued by the IASB in April 2024 and is mandatory for annual periods beginning on or after 1 January 2027 under IFRS Accounting Standards. It replaces IAS 1 in its entirety. Early adoption is permitted, subject to endorsement by the relevant jurisdiction's standard-setting or regulatory authority.

What IFRS 18 Does — and Does Not — Change?

IFRS 18 is a pure presentation and disclosure standard. It does not alter recognition, measurement, the balance sheet structure, the statement of changes in equity, OCI, or the choice between the direct and indirect cash-flow method under IFRS Accounting Standards. Profit for the year, EPS and net cash flows are identical under IAS 1 and IFRS 18.

Three Pillars of Change at a Glance

Pillar 1
Structure of the P&L

What Changes Under IFRS Accounting Standards?

Five defined categories replace IAS 1's flexible layout. Two mandatory subtotals — Operating Profit and Profit Before Financing & Income Taxes — are introduced.

Why it matters?
Ends inconsistent computation of 'operating profit' across entities. Creates globally comparable anchor subtotals for the first time under IFRS Accounting Standards.

Pillar 2
Management-defined performance measures (MPMs)

What Changes Under IFRS Accounting Standards?

Management-defined performance measures (MPMs) used in external communications must migrate into a single audited note with full reconciliation, tax and NCI effects.

Why it matters?
MPMs are elevated into the statutory audit opinion. Formal governance, named ownership and a controlled reconciliation process are now mandatory.

Pillar 3
Aggregation

What Changes Under IFRS Accounting Standards?

New principles govern grouping by shared characteristics. Catch-all 'Other' lines are curbed on the face and in the notes. Function-presenters must add a mandatory nature-breakdown note.

Why it matters?
Eliminates vague income/expense lines that obscure performance. Raises the disclosure bar for notes under IFRS Accounting Standards.

What Changes on your Income Statement — Quick View (USD Million example)?

Line Item	Under IAS 1	Under IFRS 18	Note
Revenue	1,000	1,000	Unchanged
Cost of sales	(600)	(600)	Unchanged
Other operating income	15	15	Operating — stays above subtotal
Other income (associates + investments)	45	➡ 30 + 15	Moves to Investing (below)
Finance costs	(40)	➡ (40)	Moves to Financing (below)
Operating Profit	—	270	* New mandatory subtotal
Share of profit — associates & JVs	—	30	Now shown in Investing
Income from investments	—	15	Now shown in Investing
Profit before financing & taxes	—	315	* New mandatory subtotal
Finance expenses	—	(40)	Now shown in Financing
Income tax expense	(69)	(69)	Unchanged
Profit for the year	206	206	Identical ★

The SMBA Question — What you need to decide?

The Specified Main Business Activity (SMBA) is the most important judgement your entity must make under IFRS 18 and IFRS Accounting Standards. Ask yourself: is our main business activity investing in assets or providing finance to customers?

If your main business is...	You are likely an SMBA entity	Implication
Lending to customers (banking, finance companies)	Yes	Interest income stays in Operating — not reclassified to Investing
Property investment / leasing	Yes	Rental income stays in Operating — not reclassified to Investing
Manufacturing, retail, services, construction	No — default rules apply	Income from associates, investment returns move to Investing. Finance costs move to Financing.
Diversified conglomerate (mixed activities)	Assessed at group level separately from subsidiaries	Group SMBA conclusion may differ from subsidiary conclusions; recurring consolidation entries required.

Your Four-Step Transition Road Map

Step	When	What to do under IFRS accounting standards
1. Assess Now	Now	Complete the SMBA assessment at entity and group level , and board-approve the conclusion. Inventory all non-GAAP measures communicated externally. Map your chart of accounts to the five IFRS 18 categories. Engage your auditors now.
2. Build	FY2026	Begin dual-running FY2026 income statements under IAS 1 and IFRS 18 simultaneously. Update your ERP and consolidation pack. Model the new operating profit on your covenants and KPIs. Initiate covenant re-negotiation where needed.
3. Report	First close FY2027	Issue first IFRS 18 financial statements. Present restated FY2026 comparatives and the IAS 1-to-IFRS 18 reconciliation. Publish the audited MPM note. Brief investors and analysts before results land.
4. Embed	Ongoing	Re-base covenants, KPIs and remuneration metrics. Maintain the SMBA paper. Run MPM reconciliations every period. Reassess SMBA whenever the business changes materially.



Six Things To Do Now

1. Run the SMBA assessment at every entity and at consolidated group level; obtain board approval of the conclusion before year-end 2026.
2. Begin capturing FY2026 comparative data under IFRS 18 immediately — retrospective reconstruction from scratch is expensive and the window is closing.
3. Inventory every non-GAAP measure you communicate externally and check whether it meets the MPM definition under IFRS Accounting Standards.
4. Engage your ERP team and consolidation pack owners. This is a systems project requiring new account mappings, reporting views and consolidation entries.
5. Review all debt covenants, banking facilities and executive remuneration plans that reference 'operating profit;' — these will need re-basing or re-negotiation.
6. Brief your board and audit committee now. SMBA approval, MPM governance and the transition plan all require board-level oversight and sign-off.

The effective date is 1 January 2027 — but the comparative period is FY2026, which is already running. Every month without parallel data capture makes the transition harder and more costly. Start now under IFRS Accounting Standards.

1. Scope — What IFRS 18 Changes and What it Leaves Alone?

IFRS 18 replaces IAS 1 in full from 1 January 2027 under IFRS Accounting Standards. It is a pure presentation and disclosure standard; it does not alter recognition, measurement, the balance sheet structure, the statement of changes in equity, OCI, or the choice between the direct and indirect cash-flow method. Profit for the year, EPS and net cash flows are identical under IAS 1 and IFRS 18.

Pillar 1 Structure of the P&L	Pillar 2 Management-Defined Performance Measures (MPMs)	Pillar 3 Aggregation & Disaggregation
Five defined categories with two new mandatory subtotals replace IAS 1's flexible, inconsistent presentation. Cross-entity comparability is enforced globally for the first time under IFRS Accounting Standards.	Non-GAAP metrics used in external communications must move into a single audited note with full reconciliation to the nearest IFRS subtotal, plus the tax and NCI effect of every reconciling item. MPMs fall within the statutory audit opinion under IFRS Accounting Standards.	New principles govern grouping of income and expense items by shared characteristics. Vague 'Other' catch-alls are curbed. Function-presenters must add a mandatory nature-breakdown note covering depreciation, amortisation, employee benefits and impairments.

2. Pillar 1 — The Five P&L Categories & Mandatory Subtotals

Under IFRS Accounting Standards, every item of income and expense must be classified into one of five categories. Classification follows the nature of the underlying asset or liability and never based on historical income-statement labels or prior accounting treatments.

Category	What belongs here	Status under IFRS 18
Operating	Main business activities — default catch-all. Includes: revenue, cost of sales, depreciation & amortisation, impairments on operating assets, restructuring, gains/losses on disposal of PPE.	Default — all items not meeting criteria of another category
➨ Operating profit or loss		First mandatory subtotal — new under IFRS 18
Investing	Returns from assets held independently of main operations: share of profit of associates & JVs (equity method), dividends & interest from investments, FV changes on investment assets.	New category — items previously in 'other income' migrate here
➨ Profit before financing & income taxes		Second mandatory subtotal — new under IFRS 18
Financing	Costs of raising finance through liabilities: interest on borrowings, amortisation of debt-issuance costs, FX on financing monetary items, gains/losses on derivatives hedging financing.	New category — replaces ad hoc below-the-line presentation
Income Taxes	IAS 12 current and deferred tax, income and expense, including adjustments for prior periods. Always a separate category.	Separate — unchanged in scope
➨ Profit or loss		Subtotal — as under IAS 1
Discontinued Operations	Per IFRS 5 — presented separately as the fifth category below profit or loss.	Fifth category — not allocated to the four above

3. Specified Main Business Activity (SMBA) — The Key Management Judgement

The SMBA is the single most significant area of management judgement under IFRS 18. Entities whose main activity is investing in assets or providing finance to customers may classify certain investing and financing items within the Operating category. The boundary is determined by the nature of the underlying asset or liability — not the income-statement label. This requires robust governance, formal documentation, board approval and periodic assessment.

There is no numerical threshold or bright-line test — IFRS Accounting Standards are entirely principles-based on this point. The SMBA conclusion requires robust management judgement supported by a documented assessment that is board-approved, aligned with IFRS 8 segment disclosures and formally revisited whenever the business mix changes materially.

SMBA Assessment — Step-by-Step Decision Framework

1. Describe the entity's business in one sentence. If that description includes 'investing in assets' or 'providing finance to customers' (e.g. banks, finance companies, insurers, real-estate entities, PE holdcos), an SMBA may exist and must be assessed.
2. Identify the predominant source of revenues and expenses in the ordinary course of business. If income from investing or financing activities constitutes the majority of ordinary-course income, SMBA status is strongly indicated under IFRS Accounting Standards.
3. Examine management's external communications. Does management present 'net interest income' or 'rental income' as a key group-level P&L subtotal or headline KPI? If yes, this is strong evidence supporting SMBA classification for those activities.
4. Assess the group separately from its subsidiaries. The SMBA test is performed independently at each reporting entity — parent, subsidiary and the consolidated group can each reach different conclusions, triggering reclassification entries on consolidation.
5. Document, obtain board approval and embed in governance. The SMBA conclusion must be evidenced by IFRS 8 segment data, formally documented in a judgement paper, board-approved and reviewed by the external auditor — ideally before year-end.
6. Reassess at every period and on every trigger event. Any material shift in business mix — acquisition, disposal, strategic pivot or significant revenue-mix change — requires the SMBA paper to be revisited and re-approved by the board.

SMBA Assessment — Decision Flow Diagram

Use the following framework to determine whether an SMBA applies at entity and group level:

Step	Decision question	If yes	If no
1	Does the entity, as a main activity, invest in assets OR provide financing to customers?	Proceed to Step 2	Apply default classification rules — SMBA does not apply. Document the conclusion.
2	Does investing/financing income constitute the predominant share of ordinary-course revenues and expenses?	Proceed to Step 3	SMBA unlikely. Document the rationale and apply default Operating/Investing/Financing classification by nature of underlying item.
3	Does management present net interest income, rental income or equivalent as a key group-level subtotal or KPI in external communications?	SMBA applies — classify relevant investing/financing items in Operating. Document, board-approve and align with IFRS 8 disclosures.	SMBA does NOT apply at group level. Reclassify any subsidiary SMBA items on consolidation. Document and board-approve.
4	Has the business mix changed materially since last assessment (acquisition / disposal / new business line / strategic pivot)?	Reassess SMBA from Step 1 — update the judgement paper and obtain board re-approval immediately.	Continue — reconfirm the existing SMBA conclusion in current-period documentation and report to audit committee.

SMBA Governance Requirements — What must be in place?

Governance element	Requirement under IFRS accounting standards	Owner	Timing
SMBA Judgement Paper	Formal written assessment evidenced by IFRS 8 segment data, revenue analysis and management KPI disclosures. Must document the conclusion and the reasoning at both entity and group level.	CFO / Finance Director	Complete before year-end 2026
Board Approval	The SMBA conclusion must be formally presented to and approved by the board before the first IFRS 18 financial statements — it is a material management judgement, not a purely technical determination.	Audit Committee / Board	Before year-end 2026
IFRS 8 Alignment	Segment reporting disclosures must be fully consistent with the SMBA conclusion. Auditors will test this alignment — inconsistencies will be challenged by regulators under IFRS Accounting Standards.	Group Finance / Reporting	Ongoing from now
Trigger-Based Reassessment	Define internal triggers (acquisition, disposal, revenue mix shift, new business line) that automatically prompt SMBA reassessment and board re-approval.	CFO / Group Finance	Policy to be set now
External Auditor Engagement	Engage auditors on the SMBA paper before year-end — not as part of the final audit clearance. Regulators have signalled enforcement focus on SMBA consistency across comparable entities.	Finance / Audit Committee	Immediately

Audit committee note: Regulators in IFRS reporting jurisdictions have signalled they will enforce consistent application of SMBA across comparable entities in the same sector. Early engagement with your external auditors is strongly advised.

4. Worked Example — Manufacturer (USD Million): same profit, re-architected

The following illustrates how a manufacturing entity's income statement is restructured under IFRS Accounting Standards. Profit for the year is identical at USD 206 million. The USD 60 million 'other income' lump splits into defined investing items; two mandatory subtotals appear for the first time.

Line Item	IAS 1 (USD M)	IFRS 18 (USD M)	IFRS 18 Category
Revenue	1,000	1,000	Operating
Cost of sales	(600)	(600)	Operating
Gross profit	400	—	—
Other operating income	15	15	Operating
Distribution & admin expenses	(145)	(145)	Operating
Other income — assoc. & investments	45	—	Reclassified below ⬇
Finance costs	(40)	—	Reclassified below ⬇
Operating profit	—	270	First mandatory subtotal
Share of profit — associates & JVs	—	30	Investing
Income from investments	—	15	Investing
Profit before financing & income taxes	—	315	Second mandatory subtotal
Finance expenses	—	(40)	Financing
Profit before income taxes	275	275	—
Income tax expense	(69)	(69)	Income Taxes
Profit for the year	206	206	Unchanged *

Note: Profit for the year is identical at USD 206 million. The USD 45 million 'other income' lump splits into two defined investing items; two mandatory subtotals appear; Operating Profit (USD 270 million) now excludes associate and investment income — a key change for analysts and credit rating agencies benchmarking entities on operating metrics.

5. Consequential Amendments to IAS 7 — Cash Flow Statement

IFRS 18 amends IAS 7 under IFRS Accounting Standards with effect from the same date. The net cash flow total is unchanged in every case — only the starting point and classification of specific items change.

1. Indirect method start point: the reconciliation must now begin at Operating Profit, not Profit Before Tax. The heading 'cash generated from operations becomes cash from operating activities before income taxes'.
2. Classification options removed: the free choice for interest paid/received and dividends is abolished under IFRS Accounting Standards. Non-SMBA entities must classify interest received and dividends received in Investing; interest paid in Financing.
3. SMBA entities (banks, insurers, finance companies, real-estate entities): classify interest and dividends in the single category consistent with their main business activity under IFRS Accounting Standards — typically Operating. Net cash flow is unchanged.
4. Critical trap under IFRS Accounting Standards: IAS 7 operating/investing/financing cash flow categories are NOT symmetrical with IFRS 18 P&L categories of the same name. A financing item in the P&L does not automatically map to a financing cash flow. Never assume a 1:1 mapping between the two statements.

Cash Flow — Indirect Method Comparison (USD Million)

Operating Activities	Before (IAS 7)	After (IFRS 18)
Start: Profit before tax / Operating profit	275	270
Add: finance costs	40	— excluded
Less: investment income	(15)	— excluded
Less: share of associates	(30)	— excluded
Add: depreciation & amortisation	80	80
Working capital changes	(25)	(25)
Cash from operating activities	325	325

6. Pillar 2 — Management-Defined Performance Measures (MPMs)

An MPM under IFRS Accounting Standards is a subtotal of income and expenses that an entity uses in public communications outside the financial statements to convey management's view of financial performance — and that is not a subtotal specified by IFRS Accounting Standards. Examples include: 'Adjusted EBITDA', 'Underlying EBIT', 'Core Operating Profit', 'EBITDA before exceptionals'.

Mandatory note content for each MPM under IFRS Accounting Standards

1. Explain why the MPM provides useful information about financial performance in the financial statements. Entity-specific and substantive, not a generic statement.
2. Present a full line-by-line reconciliation from the MPM to the nearest IFRS-defined subtotal or total in the financial statements.
3. Disclose the income-tax effect of each reconciling item, calculated on a consistent basis period to period.
4. Disclose the NCI (non-controlling interest) effect of each reconciling item for every profit-related MPM disclosed.
5. Describe how the measure is calculated and disclose any change in methodology with the reasons for that change.
6. Include a statement that the MPM represents management's view and may not be directly comparable with measures used by other entities under IFRS Accounting Standards.
7. The MPM note falls within the scope of the statutory audit opinion — it is not a lightly-reviewed alternative performance measure supplement.

MPM Governance and Internal Controls — Implementation Requirements

IFRS 18 significantly increases the governance and internal control requirements around non-GAAP metrics under IFRS Accounting Standards. Entities should implement the following framework before the first IFRS 18 statements:

Control area	Requirement	Risk if not addressed
MPM Inventory	Maintain a defined register of every MPM communicated externally — earnings releases, investor presentations, analyst calls, annual reports, board packs.	Undisclosed measures that meet the MPM definition create audit qualification risk and regulatory exposure under IFRS Accounting Standards.
Ownership & Accountability	Assign a named owner to each MPM, responsible for definition, calculation methodology and reconciliation accuracy.	Inconsistent calculation between periods triggers mandatory disclosure and restatement of comparatives under IFRS Accounting Standards.
Controlled Reconciliation	Design and operate a formal period-end reconciliation from each MPM to the nearest IFRS subtotal, including tax and NCI effects, with documented review sign-off.	Uncontrolled reconciliations are unlikely to survive auditor challenge once within the audit opinion scope of IFRS Accounting Standards.
Consistency Policy	Document the calculation methodology for each MPM. Any change in methodology must be disclosed with reasons; comparatives must be re-presented on the new basis.	Undisclosed methodology changes constitute a breach of IFRS 18 disclosure requirements under IFRS Accounting Standards.
Communication Review	Before issuing any external communication containing a non-GAAP measure, verify it meets the MPM definition and the audited note is in place.	A measure communicated externally that is absent from the financial statements triggers an audit qualification under IFRS Accounting Standards.

What changes?
Audit scope
MPMs now sit inside the financial statements and fall within the statutory audit opinion. They can no longer appear only in earnings releases or investor presentations with a light-touch review.

What changes?
Consistency
The same definition must be used period to period under IFRS Accounting Standards. Changes require disclosure of the reason and re-presentation of comparatives on the new basis.

What changes?
No press-release exclusion
A measure communicated externally in any channel — earnings releases, analyst calls, investor decks — cannot avoid the audited note under IFRS Accounting Standards simply by being omitted from the financial statements.

7. Internal Controls, ERP & Financial Reporting Process Implications

IFRS 18 under IFRS Accounting Standards is not merely a disclosure change — it has significant implications for internal controls, ERP systems, the chart of accounts and financial reporting processes. Entities should treat the IFRS 18 transition as a systems and process transformation project alongside a technical accounting exercise.

Implementation area	Current challenge	IFRS 18 requirement	Action required
Chart of Accounts	Income and expense accounts tagged to historical labels without reference to underlying asset/liability nature.	Every account must map to one of the five IFRS 18 categories based on the nature of the underlying asset or liability.	Re-map chart of accounts. Add IFRS 18 category as a mandatory field in the ERP. Document mapping rationale for each account.
ERP Configuration	Most ERP systems produce the income statement in line with the historical chart of accounts — not the IFRS 18 five-category architecture.	ERP must produce a compliant IFRS 18 P&L and cash flow statement as a standard output — not a manual year-end reclassification.	Engage ERP teams now. Configure reporting views for IFRS 18 five-category output. Build SMBA reclassification logic into the consolidation pack.
Consolidation Pack	SMBA reclassifications on consolidation do not currently exist as formal consolidation entries.	Recurring consolidation reclassification entries are required every period for any group with SMBA-entity subsidiaries.	Design formal consolidation entries. Build into the consolidation model. Test with FY2026 parallel data before year-end.
Period-End Close	Period-end close is designed around IAS 1 line items. IFRS 18 subtotals are produced manually or not at all.	Period-end process must produce two new mandatory subtotals accurately and consistently every period.	Update close checklists, reconciliation packs and management reporting templates to include IFRS 18 subtotals
MPM Reconciliation	MPM reconciliations — where they exist — are typically informal, spreadsheet-based and reviewed only at year-end.	MPM reconciliations are audited — they require the same rigour as any other audited financial statement note.	Design a formal, controlled MPM reconciliation with review sign-off, version control and audit trail every period.
Comparative Data	FY2026 comparative data will be required under both IAS 1 and IFRS 18 for the first IFRS 18 statements.	Retrospective application under IFRS Accounting Standards — FY2026 income statement must be capable of re-presentation under IFRS 18 as a comparative.	Begin dual-running FY2026 immediately. Retrospective reconstruction from scratch is expensive and error-prone.

8. Pillar 3 — Aggregation, Disaggregation & the end of Vague Lines

1. Core principle under IFRS Accounting Standards: group income and expense items by shared characteristics and separate items whose characteristics differ. Useful structured summaries belong on the face of the P&L; supporting detail belongs in the notes. Materiality governs where that line is drawn.
2. Operating expenses — nature vs function: entities may present by nature, by function, or a mix. However, if any line is presented by function (e.g. 'Cost of sales'), a mandatory note must disclose the nature breakdown — depreciation, amortisation, employee benefits and impairments/write-downs. For many preparers this is a brand-new data-collection exercise under IFRS Accounting Standards.
3. 'Other' lines on notice: catch-all captions are curbed under IFRS Accounting Standards. Where a residual 'Other income' or 'Other expense' line is material, the entity must describe what sits inside it. Vague aggregation obscuring financial performance will be challenged by auditors and regulators.
4. Notes do more of the work: face-line subtotals must be supported by disaggregated note detail that is complete and auditable. IFRS 18 significantly raises the bar for what constitutes sufficient presentation and disclosure under IFRS Accounting Standards.

9. Conglomerate Deep Dive — Dubai Group (USD Million)

The SMBA test under IFRS Accounting Standards is performed at every reporting entity independently. In consolidated statements the assessment is made from the group's perspective — which can differ completely from each subsidiary's own conclusion. For a diversified conglomerate this can move hundreds of millions between operating profit and the categories below it, purely on consolidation — without any change in underlying performance.

Group Structure and SMBA Conclusions under IFRS Accounting Standards

Entity	Nature	Own-FS SMBA conclusion	Group-level treatment on consolidation
Manufacturing & Industrial	~78% of group revenue; core industrial operations	Default rules — no SMBA applies	All items remain in Operating at group level
Dubai Finance (Finance Co.)	Lends to dealers & retail customers	SMBA = financing customers (own FS only)	Lending interest reclassified from Operating to Investing on consolidation
Dubai Realty	Owns & leases commercial property	SMBA = property investment (own FS only)	Rental income reclassified from Operating to Investing on consolidation

Group-level conclusion: Manufacturing dominates. The group does NOT present 'net interest income' or 'rental income' as key group performance indicators under IFRS Accounting Standards — therefore financing-to-customers and property investment are NOT group SMBAs. Dubai Finance's and Dubai Realty's own 'operating' income is reclassified to Investing/Financing on consolidation.

Consolidated P&L — IAS 1 vs IFRS 18 (USD Million)

Particulars	IAS-1	IFRS-18
Revenue (manufacturing & industrial)	1,850	1,850
Cost of sales	(1,120)	(1,120)
Other operating income	25	25
Other income (rental / FV / lending / JV share)	190	—
Distribution & admin expenses	(310)	(310)
Operating profit	635 *	445
Rental income & FV gains — Dubai Realty	—	60
Interest income on lending — Dubai Finance	—	90
Share of profit — associates & JVs	—	40
Profit before financing & income taxes	—	635
Finance costs (incl. Dubai Finance borrowings)	(185)	(185)
Profit before tax	450	450
Income tax expense	(113)	(113)
Profit for the year	337	337

** IAS 1 operating profit was voluntarily computed inconsistently across entities under IFRS Accounting Standards.*

Operating profit falls by USD 190 million on consolidation — not because performance changed, but because two SMBA conclusions inside the group do not survive at group level under IFRS Accounting Standards. Profit for the year is unchanged at USD 337 million. This is a new, recurring consolidation adjustment that does not exist under IAS 1 — it must be embedded into the group consolidation pack every reporting period.

Four Key Implications for Conglomerate Reporting

1. Build the SMBA reclassification into the group consolidation pack every reporting period under IFRS Accounting Standards. This entry does not exist under IAS 1 and must be designed as a formal consolidation entry with controls, sign-off and documentation.
2. IFRS 8 segment reporting is a key evidential input to the group SMBA conclusion under IFRS Accounting Standards. P&L category classification and segment disclosures must be argued consistently and documented together — auditors will test the alignment.
3. Segment 'Adjusted EBITDA' may meet the MPM definition at group level under IFRS Accounting Standards, triggering the full audited note requirement including reconciliation to the nearest IFRS subtotal and disclosure of tax and NCI effects.
4. The SMBA judgement paper must be board-approved and formally revisited on every acquisition, disposal or material business-mix shift under IFRS Accounting Standards. Keep it current, auditable and consistent with all investor communications and IFRS 8 disclosures.

10. Board and Audit Committee— Governance and Oversight

IFRS 18 under IFRS Accounting Standards introduces governance obligations that extend well beyond the finance function. Boards and audit committees should be briefed now on the following oversight responsibilities:

Governance area	Board / audit committee action required	Timing
SMBA Determination	Review and formally approve the SMBA judgement paper at entity and consolidated group level. This is a material management judgement requiring board-level sign-off — not purely a technical accounting determination.	Before year-end 2026
MPM Governance Framework	Approve the entity's MPM inventory, calculation methodology policy and controlled reconciliation framework. Satisfy the audit committee that MPMs in external communications are consistent with those in the audited financial statements.	Before year-end 2026
Operating Profit Redefinition	Understand and formally approve the revised definition of 'operating profit' under IFRS 18. Assess the impact on board-approved KPIs, bonus targets, debt covenants and any other metric referencing operating profit.	Before year-end 2026
IFRS 18 Transition Plan	Receive a formal IFRS 18 transition plan from management — with milestones, resource requirements and a risk assessment. Monitor progress at each board/audit committee meeting until the first IFRS 18 statements are issued.	Before year-end 2026
Investor Communication Strategy	Approve the approach to briefing analysts, investors and credit rating agencies on the operating profit redefinition before the first IFRS 18 results are published. Unexpected metric movements will attract market and regulatory scrutiny.	Before first IFRS 18 results
Auditor Engagement	Satisfy the audit committee that external auditors have been engaged early on the SMBA assessment, the MPM note framework, and the IAS 1-to-IFRS 18 reconciliation for the comparative period under IFRS Accounting Standards.	Immediately

Audit committee question bank — ask management at your next meeting: (1) Have we completed our SMBA assessment at entity and group level, and is the judgement paper board-approved? (2) What is our MPM inventory and does our governance framework cover all externally communicated measures? (3) How does our operating profit metric change under IFRS 18 and have we modelled the covenant and KPI impact? (4) When did we last brief our external auditor on our IFRS 18 transition plan and comparative data capture?

11. Practical Challenges for Preparers and Auditors

Group Structure and SMBA Conclusions under IFRS Accounting Standards

1. Chart of accounts and ERP: every income and expense line must be tagged to one of the five IFRS 18 categories based on the nature of the underlying asset or liability — not the old income-statement label. Large groups typically require ERP re-mapping, consolidation system changes and new tagging conventions. This is a systems and process project under IFRS Accounting Standards, not a year-end posting.
2. Restated comparatives – act now: FY2026 must be dual-run under both IAS 1 and IFRS 18. Restated comparatives and an IAS 1-to-IFRS 18 reconciliation note must appear in the first IFRS 18 financial statements under IFRS Accounting Standards. The comparative period is already running.
3. Covenants and remuneration: debt covenants, banking KPIs and executive bonus targets referencing the old 'operating profit' definition must be re-based or formally re-negotiated with lenders and remuneration committees before the 1 January 2027 effective date under IFRS Accounting Standards.
4. MPM governance: build a defined MPM inventory with named owners and a controlled reconciliation covering tax/NCI effects. Many entities do not have formal governance over non-GAAP metrics today — this must change before the first IFRS 18 statements are issued under IFRS Accounting Standards.
5. Investor communications: pre-empt the narrative — brief analysts, investors and credit rating agencies on why headline operating profit has changed before results are published. Unexpected moves in a key metric will alarm markets even when profit for the year is unchanged.

For Auditors under IFRS Accounting Standards

1. Classification judgement: test the SMBA assessment and operating/investing/financing category calls — driven by the nature of the underlying asset or liability, not the label. Obtain, read and challenge the documented SMBA judgement paper; verify alignment with IFRS 8 segment disclosures under IFRS Accounting Standards.
2. MPMs now in audit scope: audit the MPM reconciliation, the tax/NCI allocation and consistency of the measure definition period to period under IFRS Accounting Standards. These are within the statutory audit opinion — not an agreed-procedures add-on.
3. Aggregation and meaningful labels: challenge generic 'Other income' or 'Other expense' lines; assess whether disaggregation faithfully represents the grouped items and whether the nature-breakdown note is complete, accurate and auditable under IFRS Accounting Standards.
4. Restatement and comparative period: audit the IAS 1-to-IFRS 18 reconciliation for FY2026, the re-presented comparatives and the transition disclosures for completeness and consistency under IFRS Accounting Standards.
5. Controls over new processes: evaluate whether the entity's new category-mapping and MPM reconciliation controls are properly designed and operating effectively — do not limit testing to reviewing year-end journal entries and output.

12. Industry-Specific Pressure Points

Sector	Key IFRS 18 issue under IFRS accounting standards
Banks & Financial Institutions	Interest income-SMBA and trading IS the business — SMBA keeps these in Operating. Drawing the operating/investing/financing line and reclassifying cash flow items are the core judgements. IAS 7 reclassifications directly mirror the P&L SMBA decision.
Insurers	IFRS 17 results interact with IFRS 18 categories under IFRS Accounting Standards. Insurance finance income/expense and investment returns must align consistently with the SMBA determination. The interaction requires careful analysis specific to the entity's business model.
Real Estate & Investment Property	Rental income and FV gains: SMBA determines whether these are Operating (SMBA entity) or Investing (non-SMBA) under IFRS Accounting Standards. Critical for REITs, property holdcos and entities with mixed investment/operational property portfolios.
Diversified Conglomerates	Multiple SMBAs under one roof. Group vs entity-level conclusions diverge, generating a recurring consolidation reclassification entry under IFRS Accounting Standards. IFRS 8 alignment is essential and will be tested by auditors and regulators.
Capital-Intensive (Telecom / Utilities / Infra)	Large depreciation, lease liabilities and borrowings make the operating/financing boundary and the new cash-flow starting point highly material to all reported metrics and covenant calculations under IFRS Accounting Standards.
PE & Investment Holdcos	Returns on investments are the business — likely classified as Operating under SMBA, fundamentally reshaping the Operating Profit and PBF&IT subtotals that PE investors and analysts rely on for valuation multiples under IFRS Accounting Standards.

13. Frequently Asked Questions

Q1.
Does IFRS 18 change profit for the year or EPS?
No. Recognition and measurement are untouched under IFRS Accounting Standards. Only presentation, classification and disclosure change — profit for the year, EPS and total comprehensive income are identical under IAS 1 and IFRS 18.

Q2.
When is IFRS 18 mandatory and can we adopt early?
IFRS 18 is mandatory for annual periods beginning on or after 1 January 2027 under IFRS Accounting Standards, applied retrospectively. Early adoption is permitted, subject to endorsement by the relevant jurisdiction's standard-setting or regulatory authority — entities should confirm endorsement status in their jurisdiction before committing to early adoption.

Q3.
Does a subsidiary's SMBA conclusion apply automatically to the group?
No. Under IFRS Accounting Standards the SMBA test is performed independently at each reporting entity — parent, subsidiary and the consolidated group can each reach different conclusions, triggering reclassification entries on consolidation. This is a key source of complexity for diversified groups.

Q4.
What happens to 'Adjusted EBITDA' and similar non-GAAP measures?
They survive as disclosed MPMs in a single audited note under IFRS Accounting Standards with full reconciliation and tax/NCI effects. They can no longer sit only in earnings releases or investor decks — they require a formal note within the statutory audit opinion.

Q5.
Do private and unlisted entities apply IFRS 18?
Yes. IFRS 18 applies to every entity preparing financial statements under IFRS Accounting Standards — there is no size or listing exemption.

Q6.
Will IFRS 8 segment disclosures change?
IFRS 8 itself is unchanged under IFRS Accounting Standards, but segment information is a key evidential input to the SMBA conclusion. Segment reporting and P&L classification must be argued and documented consistently — auditors will test this alignment.

Q7.
Must we restate FY2026 comparatives?
Effectively yes. Retrospective application under IFRS Accounting Standards requires FY2026 to be restated and reconciled in the first IFRS 18 financial statements. The comparative period is already running — entities not yet capturing FY2026 data in the IFRS 18 format should start immediately.

Q8.
How does an MPM differ from today's alternative performance measure (APM)?
Once a measure meets the MPM definition under IFRS Accounting Standards it moves inside the audited financial statements and within the audit opinion. It cannot sit only in investor presentations with a light-touch review — it requires a formal note, full reconciliation and tax/NCI disclosure.

Q9.
Are associate and JV profits affected for non-SMBA entities?
Yes. Under IFRS Accounting Standards the share of profit/loss of associates and JVs moves from Operating to the Investing category — often a significant reclassification for groups with large equity-accounted investments.

Q10.
What triggers a change in our SMBA determination?
Any material shift in business mix — acquisition, disposal or strategic change — requires the SMBA paper to be revisited and re-approved by the board under IFRS Accounting Standards. The updated paper must be kept as an auditable document.

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