Financial Reporting Developments

IFRS 18 – Presentation and Disclosure in Financial Statements

The better the question. The better the answer. The better the world works.

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with confidence

Presenters

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Partner
Financial Accounting Advisory Services (FAAS)

Riyadh, Kingdom of Saudi Arabia

- **24+ years** cross-sector experience
- **Since 2005** with EY, regional & global markets
- **CPA** Certified Public Accountant — Illinois, USA
- **EY iGAAP** reviewer & former co-author
- **Q&R Leader** Assurance Advisory, MENA

BACKGROUND

Partner based in Riyadh, engaged in financial advisory and special assignments across the MENA region. Leads EY's **Quality & Risk management** for the Assurance Advisory practices across MENA. Recognized as a global authority on securitization within the EY network — shaping leading practices and advising on innovative deal structures.

SELECTED EXPERIENCE

- Currently leads large Financial Reporting Excellence, Finance Transformation, and managed-services programmes across MENA.
- Led IFRS accounting and reporting engagements for leading industry clients across KSA and the wider MENA region.

AREAS OF DEEP EXPERTISE

Complex Accounting & Structuring

Structuring advice and acquisition accounting across a diverse portfolio. Led high-profile accounting-change projects for listed companies and family businesses in KSA, Kuwait and the region, with thought leadership on emerging disclosure and banking-regulation matters.

Mergers & Consolidation

Led the merger and consolidation programme at a large sovereign pension fund — Group accounting policies, Group reporting packs, technical support on complex matters, interim tactical solutions and overall project management.

Finance Transformation

Led transformation for large government entities: operating-model and organisation design, delegation of authority, and the design of key processes and policies across Financial Accounting, Procurement, Treasury and Budgeting — with recommendations on competencies, risks and controls.

Hisham Jarrar

Senior Director

Financial Accounting Advisory Services (FAAS)

Riyadh, Kingdom of Saudi Arabia

- **17+ years** cross-sector experience
- **Since 2016** with EY, Assurance and Advisory Services
- **ACCA & CMA** Professional qualifications
- **Masters** Durham University, UK
- **Accounting Excellence Leader** Assurance Advisory, MENA

EY Building a better working world

BACKGROUND

Senior Director based in Riyadh, providing consultancy services across public and private sectors in Saudi Arabia. Leads Financial Accounting Advisory engagements

SELECTED EXPERIENCE

- Currently Leads IFRS accounting and reporting engagements for leading industry clients across KSA and the wider MENA region
- Project Director for the Ministry of Finance's Government Consolidation Project — overseeing design and implementation of financial consolidation procedures for 250+ government entities, developing unified financial statements and a central balance sheet aligned with IPSAS requirements.

AREAS OF DEEP EXPERTISE

Financial Reporting Excellence

Accrual-basis and IFRS/ IPSAS-aligned reporting transformation across major government ministries — Interior, Transportation, and Defense — supporting Vision 2030.

Reporting & Consolidation

Design and implementation of Saudi Arabia's whole-of-government consolidation framework for 250+ entities, with a central balance sheet aligned to IPSAS standards.

Finance Transformation

End-to-end finance function transformation — operating model design, accounting policies, cash-to-accrual conversion, and Vision 2030-aligned financial governance frameworks.

Agenda

- Part 1: Highlights on key IASB pronouncements effective in 2026 and 2027
- Part 2: IFRS 18: A New Era in Financial Reporting

Part 1:

Highlights on key IASB pronouncements effective in 2026 and 2027

Amendments to IFRS - 2026

New Pronouncement	Effective Date	Summary Requirements
Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7	1 January 2026	• Post-implementation review (PIR) of IFRS 9 and IFRS 7 • De-recognition of financial instruments – Electronic payment systems • Classification of financial assets – SPPI – Additional guidance • Contractually linked instruments – Additional guidance • IFRS 7 – additional disclosure clarifications
Annual Improvements to IFRS Accounting Standards– Volume 11	1 January 2026	Non-urgent and minor updates to improve consistency in practice of applying accounting standards - IFRS 1, IFRS 7, IFRS 9, IFRS 10, IAS 7.
Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7	1 January 2026	• Amendments apply to contracts that reference nature-dependent electricity production (PPAs). • Changes to IFRS 9 – Hedge accounting guidance when PPA are used. • Changes to IFRS 7 – New disclosure requirements • IFRS 19 – No relief for entities applying IFRS 19 These are contracts that expose an entity to variability in an underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions, typically associated with renewable electricity sources such as sun and wind

IFRS Pronouncements - 2027

New Pronouncement	Effective Date	Summary Requirements
IFRS 18 – Presentation and Disclosure in Financial Statements Focused session	1 January 2027	• IFRS 18 replaces IAS 1. • New categories and subtotals in the statement of profit or loss. • Requires disclosure of management-defined performance measures (MPMs) • New requirements for the location, aggregation and disaggregation of financial information.
IAS 28 Amendments- Fair Value Option	1 January 2027	❑ Clarify which entities are eligible to elect the fair value option ❑ The election would apply to "an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities". ❑ The amendments will apply at the same time as IFRS 18
IFRS 19 - Subsidiaries without Public Accountability: Disclosures	1 January 2027	❑ Applicable for • Subsidiaries • No public accountability • Parent produces consolidated financial statements available for public use that comply with IFRS ❑ Public accountability (defined as) • Public market debt or equity instruments (or in the process of issuing these instruments) • Holds assets in a fiduciary capacity for a broad group of outsiders. ❑ Reduced disclosures for almost all existing IFRSs
Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21	1 January 2027	• Clarifies how entities should translate financial statements from a non-hyperinflationary functional currency into a hyperinflationary one.

Part 2:

IFRS 18: A New Era in Financial Reporting

IFRS 18 represents the most significant change to companies' presentation of financial performance since IFRS Accounting Standards were introduced more than 20 years ago. It will give investors better information about companies' financial performance and consistent anchor points for their analysis.

Andreas Barckow
IASB Chair

IFRS 18 - Summary of the new requirements

New categories and required subtotals in statement of profit or loss

Disclosures about management-defined performance measures (MPMs)

Enhanced requirements on aggregation and disaggregation

Effective Date and Transition

Effective date	Annual periods beginning on or after 1 January 2027
Early application	Permitted
Application	Retrospectively
Interim financial statements	In year of adoption, entities that prepare condensed interim financial statements in compliance with IAS 34 must present the same headings and subtotals they expect to use in their (future) annual financial statements

New categories and subtotals in the statement of profit or loss

More structured income statement: New categories

1 Operating (Default):

- Includes, but is not limited to, income and expenses from an entity's main business activities
- Income and expenses not classified in other categories
- Includes income or expenses that are volatile or non-recurring

2 Investing (Defined category):

- Income and expenses from assets that generate returns individually and largely independently of other resources held by an entity, and
- From associates, joint ventures accounted for using the equity method

3 Financing (Defined category):

- All income and expenses from liabilities that involve only the raising of finance
- Interest expense and the effects of changes in interest rates from other liabilities

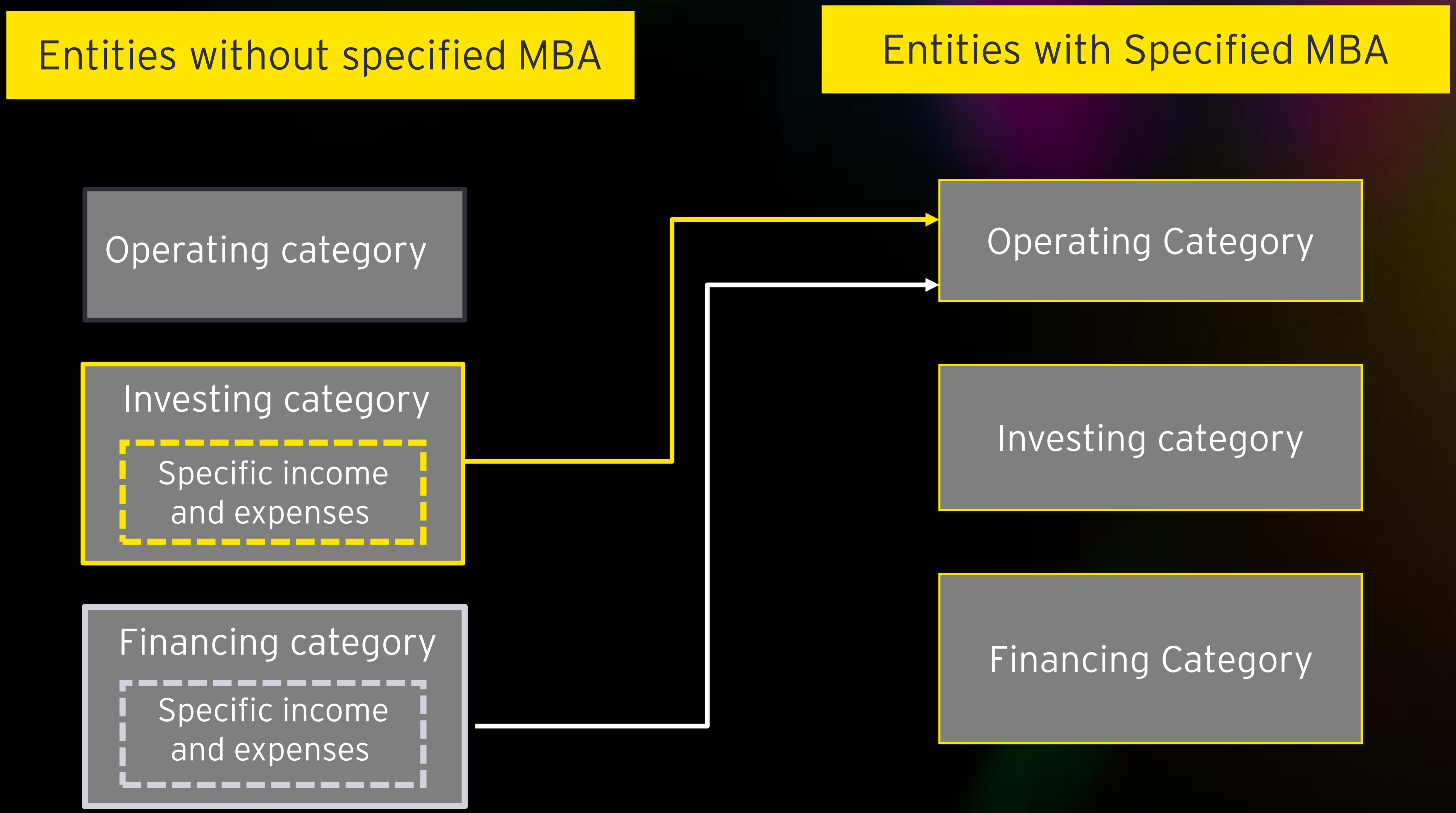
Illustrative changes in P/L after IFRS 18 - General

Statement of profit or loss	
Revenue	Operating*
Cost of sales	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and joint ventures	Investing*
Gains on disposals of associates and joint ventures	
*Profit before financing and income tax ***	
Interest expense on borrowings and lease liabilities	Financing*
Interest expense on pension liabilities	
Profit before income tax	
Income tax expense	Income taxes
Profit from continuing operations	
Loss from discontinued operations	Discontinued operations
Profit for the year	

New items Required items

* The operating , investing and financing categories are not aligned with those for cash flow statement.
** Companies providing financing to customers as a main business activity (such as banks) typically do not present this subtotal.

Specified main business activities – How it affects



Specified main business activities

IFRS 18 requires an entity to assess whether it

- invests in assets generate a return individually and largely independently of other resources held by an entity as a main business activity?
- provides financing to customers as a main business activity?

Whether an entity has specified main business activities

- Is a matter of fact and not merely an assertion
- Entity uses judgement to assess
- Based on observable evidence to the extent available
- Assessed for the reporting entity as a whole

The assessment is a continuous one and may change over time

Specified main business activities – Examples (cont).

Extract from IFRS 18

B31 Examples of entities that might invest in assets as a main business activity include:

(a) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;

(b) investment property companies; and

(c) insurers.

B32 Examples of entities that might provide financing to customers as a main business activity include:

(a) banks and other lending institutions;

(b) entities that provide financing to customers to enable those customers to buy the entity's products; and

(c) lessors that provide financing to customers in finance leases.

Specified main business activities – Examples (cont).

ILLUSTRATIVE		
Investment and Retail bank		
Statement of Profit or loss		
Line item	**CU**	**Category**
Interest revnue calculated using the EIM	X	OPERATING
Interest Expense	(X)	
Net Interest Income	**X**	
Fee and commission income	X	
Fee and commission expense	(X)	
Net Fee and Commision Income	**X**	
Net trading income	X	
Net investment income	X	
Net (loss) from derecognition of amortized cost financial assets	(X)	
Total Operating Income	**X**	
Expected credit Losses	(X)	
Employee benefits expense	(X)	
Depeciation and amortisation expenses	(X)	
Other Operating expenses	(X)	
Operating Profit	**X**	**Required subtotal**
Share of profit of associates and joint ventures accoutned for using the equity method	X	Investing
Interest expense on pension and lease liabilities	(X)	Financing
Profit or loss before tax	**X**	
Income tax	(X)	Income tax
Profit from continuing operations	**X**	
Loss from discontinued operations	(X)	Discontinued Operations
Profit for the year	**X**	**Required total**

Classification of items in investing and financing category

Entities without specified main business activities

Item	Category
Interest income on cash and cash equivalents	Investing
Interest income loan to customers	Investing
Fair value gains / losses on investment in equity and debt instruments	Investing
Gain or loss on investment properties	Investing
Gain or loss on investment in subsidiaries / associate / Joint ventures carried at fair value	Investing
Interest on defined benefit liability	Financing
Interest expense on borrowings	Financing

Management-defined performance measures (MPMs)

Management-defined performance measures (MPMs): Overview

MPMs are a subtotal of income and expense that

1. Is used in public communications outside financial statements
2. Is Management's view of financial performance
3. Is not specifically required by IFRS Accounting Standards

Public communications includes management commentary, press releases, investor presentations, etc. and does not include oral communications.

1. Does IFRS 18 require an entity to disclose MPMs? No
2. Does IFRS 18 specify which MPMs and entity should disclose? No

Performance measures

Financial performance measures

Subtotals of income expenses

MPM (Examples)

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

IFRS-defined (specifically excluded)

- Operating profit
- Operating profit before depreciation amortization and specified impairments

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt
- Adjusted revenue

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface
- Diversity metrics
- Skill development metrics

Used in public communications outside financial statements

For the purpose of defining MPMs, 'public communications:

Includes ✓

- Management commentary
- Press releases
- Investor presentations

Excludes ✗

- Oral communications
- Written transcripts of oral communications
- Social media posts

There is a *rebuttable presumption* that a subtotal of income and expenses used in public communications communicates management's view.

This presumption can only be rebutted with reasonable and supportable information.

Management-defined Performance Measures (MPMs): Required disclosures

IFRS 18 introduces requirement to disclose in a single note:

- Statement that the MPM reflects **management's view**
- Explanation of **why** the MPM is reported
- **Reconciliation** with IFRS-defined number
- Explanation of any **changes** to the MPM

		Tax	NCI
Operating profit (IFRS-specified)	**36,520**		
Restructuring in Country X (incl. in employee benefits)	8,600	(600)	1,240
Revenue adjustment (incl. in revenue)	3,800	(320)	-
Adjusted operating profit (MPM)	**48,920**		

Aggregation and disaggregation

EY

Aggregation and disaggregation : Overview and Key aspects

1 Primary financial statements provide a useful structured summary for:

- Providing a clear overview, enabling comparability, and identifying areas for further disclosure in the notes.

2 Role of the primary financial notes:

- Providing further information to understand and supplement the primary financial statements in meeting their objectives.

3 Principles for aggregation and disaggregation:

- Items should be disaggregated if material, with shared characteristics supporting aggregation and differing ones prompting disaggregation for clearer, more useful information.

4 Labelling of disaggregated information:

- Ensure transparency through clear descriptions and methods, limit use of "other" to when no better label exists

Practical implications

IFRS 18 – Presentation and Disclosure in Financial Statements

General Classification Topics | Classification of foreign exchange gain/ loss

Example	Classification in statement of profit or loss
Foreign exchange differences on a foreign currency denominated trade receivable.	Operating
Foreign exchange differences on cash settlement of a foreign currency denominated debt – Type 1 liabilities.	Financing
Purchased services denominated in a foreign currency with extended credit terms. The transaction could give rise to an operating expense for the purchase of the services and a financing expense for the interest on the payable.	Operating **OR** **(i.e., disaggregation is NOT permitted)** Financing

Basic Principle

Classification of foreign exchange differences shall follow the category in which the related income and expenses have been classified, unless doing so would involve undue cost or effort.

Exemption

The undue cost or effort **exemption** requires classification of particular foreign exchange differences in the operating category.

- Classification of foreign exchange differences to categories related to the relevant income and expenses entails significant judgement, system configuration and implementation costs.
- The **exemption** offers a pragmatic solution since the operating category is a default category.
- Judgement is made on a case-by-case basis but for similar items, the same assessment may be applied.

IFRS 18 – Presentation and Disclosure in Financial Statements

Non-Specified MBA Entities | Classification of interest

IAS 1

Revenue
Cost of sales
Gross profit
Other operating income
Selling and distribution expenses
General and administrative expenses
Goodwill impairment loss
Other operating expenses
Operating profit
Net finance cost
Share of profit/(loss) from associates and joint ventures
Profit before tax from continuing operations
Income tax expense
Profit for the year from continuing operations
Profit/(Loss) after tax from discontinued operations
Profit for the year

IFRS 18

What is included in the financing category?

All income and expenses from transactions that involve only the raising of finance

- Income or expenses on bank loans

Interest expense and effects of changes in interest rates from other liabilities

- Interest expenses on lease liabilities
- Interest on defined benefit obligations

NET FINANCE COST* *(illustrative)*	IFRS 18 Classification
Interest income – **receivables / contract assets**	OPERATING
Interest income – **cash and cash equivalents**	INVESTING
Interest expense – **lease liabilities**	FINANCING
Interest expense – **contract liabilities**	FINANCING

*For illustration purposes only. Labels and aggregation depend on the structure of the entity's statement of profit or loss.

Applicable to an entity that does *not* have a specified MBA of investing in assets or providing financing to customers

IFRS 18 – Presentation and Disclosure in Financial Statements

Disclosures of the specified expenses by nature – Illustrative

By function*

Revenue
Cost of sales
Gross profit
Other operating income
Selling expenses
Research and development expenses
General and administrative expenses
Operating profit

An entity that presents one or more line items comprising **expenses classified by function in the operating category** of the statement of profit or loss shall also **disclose in a single note:**

Specified Expenses by Nature	20X1	20X2
Depreciation		
Cost of sales	23,710	21,990
Research and development expenses	2,515	2,590
General and administrative expenses	4,975	4,750
Total depreciation	**31,200**	**29,330**
Amortization		
Research and development expenses	13,840	12,690
Total amortization	**13,840**	**12,690**
Employee benefits		
Cost of sales	61,640	57,175
Selling expenses	7,515	7,110
Research and development expenses	6,545	6,750
General and administrative expenses	9,620	5,825
Total employee benefits	**84,620**	**76,860**
Impairment loss (including reversals)		
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	0
Total impairment losses	**6,100**	**1,500**
Write-downs of inventories		
Cost of sales	2,775	2,625
Total write-down of inventories	**2,775**	**2,625**

IFRS 18 - Presentation and Disclosure in Financial Statements
Illustrative list of MPMs

Metric	Management-defined performance measure (MPM)
Adjusted Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA)	✓
Adjusted operating profit	✓
Capitalization rate / Free cash flows	✗
Adjusted Profit / Loss	✓
Number of customers / branches / towers / properties	✗

IFRS 18 – Presentation and Disclosure in Financial Statements
Illustrative list of MPMs - Banking

Metric	Management-defined performance measure (MPM)
Net Interest Margin	✕
Return on Average Ordinary shareholders'	Numerator - ?
Cost to Income Ratio	✕
Profit before Impairment	✓
Loan to Deposit Ratio	✕
Net Asset value per ordinary share	✕
Capital, liquidity, asset and funding ratios	✕

Areas of complexity introduced by IFRS 18

Comparatives

IFRS 18 alters presentation, so comparatives are re-presented onto the new structure – with a line-by-line transition reconciliation that legacy systems and the COA may not readily support.

Mapping of items of income and expenses

Items are classified into the operating, investing and financing categories – operating being the default – driving a chart-of-accounts redesign with mapping logic across the Group.

Consolidation complexities

The assessment of specified main business activities is made at a reporting entity level and the classifications of income and expense items may differ among the subsidiary, parent and consolidated levels.

Materiality frameworks

The implementation of the aggregation guidance in IFRS 18 demands tailored, defensible materiality framework at each reporting entity level.

Management Performance Measures (MPMs)

The requirement to disclose and reconcile MPMs (including in interim periods) demands new data, new controls and an inspection-ready audit trail.

Management considerations amid pervasive changes

Transition impact - FAQs

- How long will the transition take and when should you start?
- What resources and budget are required?
- Are there any other ongoing reporting projects which might overlap?
- What is the regulatory impact?

Organizational and system impact - FAQs

- What enterprise resource planning (ERP) system reconfiguration would be required to track different expenses and cost bases, including those required for transition?
- Does IFRS 18 affect the structure of your current management remuneration policies?
- Currently, can you accurately capture the required quantitative data points?
- How does your company's implementation plan benchmark against your competitors?
- How and when will you communicate to internal and external stakeholders?
- What is the impact on audit readiness?

IFRS 18 – Presentation and Disclosure in Financial Statements

Overview of IFRS 18 | Getting started and identifying time-sequenced dependencies

PMO GOVERNANCE, STAKEHOLDER COMMUNICATIONS, RISK MANAGEMENT AND CHANGE MANAGEMENT

2026		2027	2028 & onwards
Diagnose & Assess	**Design and Execute**	**Go Live**	**Sustain**
▪ Perform as-is analysis and identify gaps ▪ Conduct qualitative assessment on chart of accounts (CoA) and accounting policies ▪ Assess operational impact across finance systems, processes and roles	▪ Updating target operating model for IFRS 18 implementation ▪ Align CoA and reporting structures into enterprise resource planning (ERP) ▪ Finalize group, standalone and interim financial statements (Q2) ▪ Alignment with Audit Committee and Statutory Auditors (Q3)	▪ Go live with IFRS 18-based reporting, starting 01 January 2027 ▪ Compile comparative data ▪ Integrate IFRS 18 into financial close and reporting cycles ▪ Prepare for full-scale audit, including comparatives	▪ Sustain business as usual (BAU) environment ▪ Proactively assess post-implementation challenges ▪ Continuously improve disclosures and reporting practices ▪ Audit and filings of IFRS 18 compliant financial statements ▪ Governance in place to capture updates

EY recommended roadmap and illustrative timelines

Thank you