

Adapting investment fund reporting under IFRS 18

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IFRS 18: Impact on the Investment Funds

Overview

The International Accounting Standards Board (IASB) issued IFRS 18, Presentation and Disclosure in Financial Statements, superseding IAS 1, Presentation of Financial Statements, to enhance comparability, improve investor communication, enhance transparency in financial performance, and standardise the income statement structure. IFRS 18, issued in April 2024, offers a strategic chance to enhance financial clarity and stakeholder communication beyond compliance.

Importantly, IFRS 18 does not change the recognition or measurement of any items. Consequently, the net asset values (NAV) and total comprehensive income remain unchanged. However, it fundamentally reshapes how entities, including investment funds, present their financial performance and introduces new disclosure requirements for 'management-defined performance measures', thereby enhancing transparency in an increasingly demanding investment environment.



Effective date and transition

Item	Detail
Effective date	Annual reporting periods beginning on or after 1 January 2027 (early adoption permitted)
Retrospective application	Comparatives must be restated, along with reconciliation, effectively requiring IFRS 18-ready data capture from 1 January 2026
Transitional relief	Entities may elect to change the measurement of associates/JVs from the equity method to fair value through profit or loss (FVTPL) under IAS 28 on transition to IFRS 18

Key changes in IFRS 18

01

Restructuring of the statement of profit or loss

- Mandates five defined categories in the statement of profit or loss: Operating, investing, financing, income taxes, and discontinued operations - replacing the flexible, entity-specific structure under IAS 1 (Refer to Section Statement of profit and loss).
- Required subtotals: Operating profit or loss before financing and income taxes.

02

Aggregation and disaggregation

- Enhanced principles of aggregation and disaggregation for all primary financial statements and the notes.
- The primary statements should present a 'structured summary', supported by the notes to provide further disaggregated detail.
- Discourages use of generic "other" line items without additional disclosures.

03

Management performance measures (MPM)

- MPM: Sub-totals of income and expenses used in public communications by the management, not IFRS-defined, reflect an aspect of the entity's financial performance. E.g., Adjusted operating profit, Operating profit excluding non-recurring items.
- Exclusions: Financial ratios, non-financial measures, cash flow measures, balance sheet metrics, and the IFRS-defined sub-totals are excluded from the MPM definition. E.g., total expense ratio, free cash flow, NAV, and Operating profit.
- All MPMs must be disclosed in a single audited note with a reconciliation to the most directly comparable IFRS-defined sub-total.

04

Foreign exchange differences and derivatives

- Foreign exchange differences are classified in the same category as the income and expenses that gave rise to those differences, unless classifying them would involve undue cost or effort.
- Gains and losses on derivative instruments follow the classification of the underlying exposure they manage. Gains/losses on derivatives not used to manage identified risks default to the operating category.

Amendments to other reporting standards

Consequential amendments to various standards are made to ensure consistency and better presentation of the financial statements:

IAS7 Statement of Cash Flows

- Indirect method cash flow statement starts with the Operating profit instead of profit or loss.
- Classification optionality for interest and dividends paid/received is removed and is dependent on the specified business activities defined.

IAS34 Interim Financial Reporting

- Must include the new mandatory subtotals and the MPM disclosures in line with the annual financial statements.
- The comparative period statement of profit or loss must be restated, along with the reconciliation between IFRS 18 and IAS 1.

Statement of profit or loss - A structured layout

The standard introduces the concept of ‘specified main business activities’ (Paras 49–58) - entities must assess whether their main business activities include investing in assets that generate returns individually and largely independently of the entity’s other resources. For investment funds, since ‘investing in assets’ is clearly a main business activity, income and expenses from such investments are classified in the ‘Operating category’. The table below illustrates the five profit and loss categories:

Operating

Includes results from the main business activities. This is a residual category and includes all income and expenses not required to be classified in other categories.

E.g., fair value gains/losses on portfolio investments; interest income on bonds/deposits; management fee expenses; dividends; performance fees; FX gains/losses on investment assets; derivatives gains/losses on investment hedges and related costs.

Investing

The income/expenses arising from assets held outside the entity’s main business activity, including Investments in associates, JVs and unconsolidated subsidiaries, are accounted for under the equity method.

E.g., Share of profit or loss of associates and joint ventures under the equity method (regardless of main business activity); gains/losses on disposal of non-portfolio assets (e.g., office equipment).

Financing

Income/expenses from liabilities arising from transactions involving only the raising of finance.

E.g., Interest expense on borrowings; FX differences on financing liabilities; gains/losses on the interest rate hedges on borrowings; bank charges on credit facilities and related transaction costs.

Income taxes

Tax expense or income per IAS 12, and any related FX differences

Discontinued operations

Results from discontinued operations per IFRS 5

Expenses may be presented by nature, by function, or using a combination of both, depending on which approach provides the most useful and structured summary of the entity's operations. Where an entity chooses to classify one or more line items by function, it is required to disclose a qualitative description of the nature of expenses included within each such function line item.

Key challenges for fund industry

01 Classification complexity:

Determining 'main business activity' across diverse fund structures – umbrella funds, feeder funds, fund-of-funds, and multi-strategy vehicles – requires entity-level assessment that may differ at the group level.

02 Transition election:

Eligible funds may elect to measure previously equity-accounted associates/JVs at FVTPL under IAS 28

03 MPM identification and governance:

Identifying which fund metrics meet the precise MPM definition (sub-totals of income and expenses used publicly) and building audit-ready reconciliation frameworks with robust documentation.

04 System and process overhaul:

Chart of accounts restructuring, ERP and fund administration system updates, profit and loss template redesign, and reporting automation rebuilt across multiple platforms.

05 Retrospective application burden

Parallel reporting for 2026 comparatives while maintaining BAU – effectively requiring dual-reporting infrastructure for reporting under consideration.

06 Disaggregation demands:

More detailed and granular disclosure of income streams and expense categories than is currently disclosed.

07 Multi-jurisdiction coordination

Consistent application across fund domiciles – Hong Kong, Singapore, Luxembourg, Ireland, UK – with varying local regulatory overlays and endorsement timelines.

08 Forex tracking granularity:

Mapping FX differences to the correct P&L category requires enhanced data capture at the transaction level, especially for multi-currency portfolios.



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