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PUBLIC STATEMENT

Reshaping performance: Implementation of IFRS 18 *Presentation and Disclosure in Financial Statements*

I. Introduction

The European Securities and Markets Authority (ESMA) is issuing this Statement on the implementation of IFRS 18 *Presentation and Disclosure in Financial Statements* ('IFRS 18' or 'the Standard') to promote consistent application of European securities and markets legislation, and more specifically that of IFRS Accounting Standards. ESMA calls on issuers to ensure **high-quality implementation** of the Standard and transparency on its (expected) impacts.

Given that the new presentation and disclosure requirements may require changes to issuers' IT systems, management reports, communication strategy and policies, ESMA urges issuers to proceed with their implementation efforts **on a timely basis**. This is particularly important as IFRS 18 must be **applied retrospectively**, necessitating the restatement of comparative figures.

Management and supervisory bodies of issuers (including audit committees) and their auditors should take this Statement into consideration in their work during the implementation of IFRS 18, particularly when **disclosing, supervising and auditing information** in the IFRS financial statements (annual and interim), including on the (expected) effects of this Standard as well as when preparing European Single Electronic Format (ESEF) reporting.

ESMA, together with national competent authorities, will closely monitor the **level of transparency** that issuers provide in their financial statements about the implementation and (expected) effects of IFRS 18. The recommendations included in this statement should be considered in light of their **materiality (qualitative and quantitative)** for the issuer's operations and financial statements.

II. Core principles and focus areas under IFRS 18

IFRS 18 issued by the IASB in April 2024 replaces IAS 1 *Presentation of Financial Statements.* The new accounting standard aims to improve how issuers communicate in their financial statements. While IFRS 18 will not affect measurement of financial performance, it will affect how issuers present and disclose financial performance, in particular, in the statement of profit or loss. The new requirements mainly concern the following areas:

Structure of statement of profit or loss

IFRS 18 defines three main categories of income and expenses and two new subtotals, which improves comparability of issuers' financial performance. Issuers with '**specified main business activities**' (paragraph 49 of IFRS 18) are subject to specific classification requirements.

Management-defined performance measures

IFRS 18 requires issuers to disclose in the notes to the financial statements information about management-defined performance measures (MPM) increasing discipline over their use and transparency about their calculation.

Location of information, aggregation and labelling

IFRS 18 includes requirements on whether information should be in the primary financial statements or in the notes, on the level of detail needed and on the descriptions of items, all of which enhance communication of information.

Other considerations

The standard also sets out requirements related to the **interim financial statements**. Moreover, changes to some **other IFRS Accounting Standards** are introduced by IFRS 18.

The effective date of application of the Standard is **1 January 2027** with earlier application permitted. Issuers are required to apply the new requirements in interim financial statements in the initial year of application, and to restate comparative information for the prior year (i.e., apply IFRS 18 retrospectively) in accordance with IAS 8[1] *Basis of Preparation of Financial Statements*[2].

Consequently, ESMA reminds issuers that in their 2027 interim and annual financial statements they will be required to provide information about material accounting policies resulting from the application of IFRS 18 and the judgements that their management has made in the process of applying these accounting policies and that have the most significant effect on the amounts recognised in the financial statements[3]. Moreover, expected material effects from the application of IFRS 18 should be disclosed in issuers' interim and annual financial reports for periods ending before 1 January 2027 (see **Section III**).

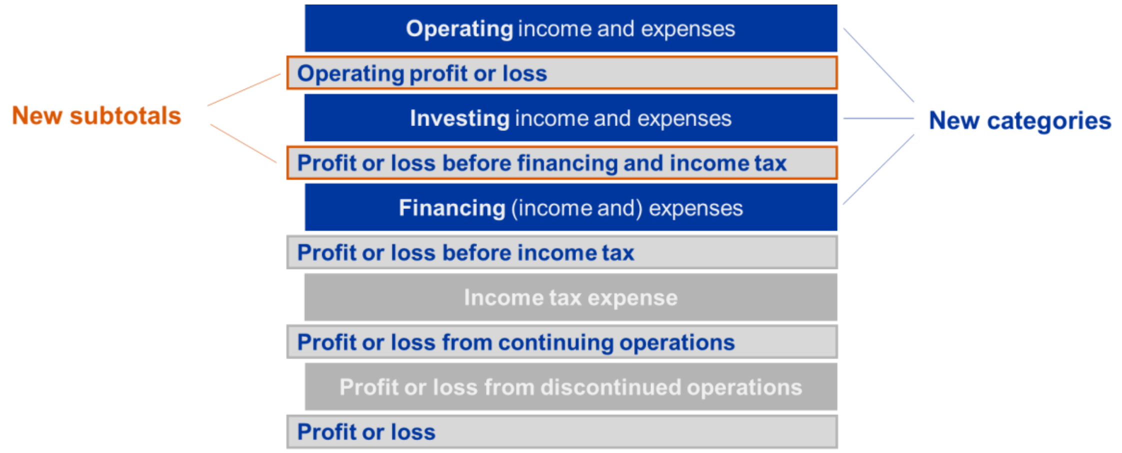
In the following sections, ESMA highlights the requirements in IFRS 18 to which issuers should pay particular attention when implementing the new standard. Moreover, ESMA urges issuers to closely monitor discussions on issues related to the application of IFRS 18 in the **IFRS Interpretations Committee (IFRS IC)**, as its decisions may provide additional clarity of the application of some of these requirements (see below for further details).

a) Structure of the statement of profit or loss

Issuers should carefully reconsider the structure of their statement of profit or loss, in light of the **new categories and subtotals**, **requirements for classification** of income and expenses in the categories (including specific requirements for **issuers with 'specified main business activities'**) and requirements relating to the **presentation of operating expenses by nature or by function**.

New categories and subtotals

The new standard distinguishes between three main categories of income and expenses (operating, investing and financing)[4] and adds two required subtotals (operating profit, profit before financing and income tax). It is expected that these categories and subtotals will improve the comparability of the statement of profit or loss[5]. The basic structure of the profit and loss statement in accordance with the new requirements is illustrated below:



[1] However, issuers are not required to present the quantitative information specified in paragraph 28(f) of IAS 8.
[2] In replacing IAS 1 with IFRS 18 the IASB carried over some requirements in IAS 1 to IAS 8 and changed the title of IAS 8 to better reflect the amended content of IAS 8.
[3] Paragraphs 27A and 27G of IAS 8.
[4] There is, however, no requirement to label the categories in statement of profit or loss or to present a subtotal for each category.
[5] ESMA notes that, as explained in paragraph BC 86 of IFRS 18, the categories of income and expenses introduced in IFRS 18 are not fully aligned with the categories required by IAS 7 *Statement of Cash Flows*. This means that transactions and events giving rise to items of income and expenses classified, for example, in the investing category according to IFRS 18, will not always be classified as 'cash-flows from investing activities' under IAS 7.

Classification of income and expenses

ESMA outlines that IFRS 18 sets out detailed requirements for the classification of specific income and expenses in the categories. ESMA expects issuers to provide transparency on the judgements and accounting policy choices made when applying these requirements. For example, IFRS 18 transition requirements permit an eligible issuer[6] to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures*, to change the **measurement method of an associate or joint venture** from the equity method to fair value through profit or loss[7,8].

ESMA also notes that classifying income and expenses in the profit or loss categories **may differ from current practices** set out at national or international level (including, but not limited, to guidance provided by national regulators or standard setters). In this respect, ESMA observes that currently some issuers present an 'operating profit' or 'operating result' subtotal. Depending on which income and expenses are included in these subtotals, those issuers may need **to make changes to how they report their operating result and communicate their performance**. For example, some issuers currently present income and expenses from equity accounted investments in the operating category, while under IFRS 18 they will be required to present those income and expenses in the investing category[9]. ESMA calls on issuers for **caution on the presentation of additional subtotals** in the statement of profit or loss that are not specified in IFRS 18[10] , for instance, including additional subtotals in investing category to accommodate the income and expenses arising from some equity accounted investments. Where applicable, issuers are required to **explain why the additional subtotals** provide useful information about the entity's financial performance (please see MPM requirements below)[11].

Other examples of income and expenses whose classification may change after the introduction of IFRS 18 include (but are not limited to):

- **Income and expenses from long-term provisions**: under IFRS 18, effects of changes in the discount rate and unwinding of the discount are classified in the financing category, while the effects of changes in the best estimate of the expenditure required to settle the liability will be classified in the operating category[12].
- **Gains and losses on designated hedging instruments:** under IFRS 18 these gains and losses are included in the same category as the income and expenses affected by the risks that the financial instrument is used to manage, unless this would require grossing up of those gains and losses. In the latter case, these gains and losses are classified in the operating category[13]. Moreover, gains and losses on an undesignated component of a designated hedging instrument are included in the same category as gains and losses on the designated component, while ineffective portions of a gain or loss should be presented in the same category as the effective portions.
- **Gains and losses on other derivatives used to manage exposure to identified risks**: according to IFRS 18 these gains and losses should be included in the same category as the income and expenses affected by the risks that the derivative is managing. If this classification requires undue cost or effort, or the grossing up of the gains and losses, issuers should classify gains and losses on other derivatives in the operating category[14].

[6] Venture capital organisations, mutual funds, unit trust and similar entities including investment-linked insurance funds.
[7] Paragraph C7 of IFRS 18.
[8] In its October 2025 meeting, the IASB decided to add a narrow scope standard-setting project to amend the scope of paragraphs 18-19 of IAS 28. Issuers are encouraged to monitor that project as it progresses.
[9] Paragraph 53(a) of IFRS 18
[10] Specified subtotals are listed, for example, in paragraph 118 of IFRS 18.
[11] Paragraph 123 (a) of IFRS 18.
[12] Paragraphs B54 and BC165 of IFRS 18
[13] Paragraphs B70 - B72 of IFRS 18.
[14] Paragraphs B70 - B72 of IFRS 18.

- **Foreign exchange (FX) differences:** Under IFRS 18, FX differences generally follow the category in which the related income and expenses have been classified[15]. However, if such allocation involves undue costs or efforts, the affected FX differences should be classified in the operating category[16]. In such cases, issuers are expected to disclose this accounting treatment and, if material, provide information on the nature of FX differences classified in the operating category.
- **Remeasurements of the fair value of a liability for contingent consideration in a business combination**: IFRS 18 requires classification of these remeasurements in the operating category[17].
- **Incremental expenses** directly attributable to the acquisition and disposal of certain investments: IFRS 18 requires their inclusion in the investing category[18].

Classification requirements for issuers with 'specified main business activities'

Issuers whose main business activities[19] include (i) **investing in particular types of assets** or (ii) **providing financing to customers** are required to classify certain related income and expenses in the operating category, even though these activities would otherwise be classified in the investing or financing category[20]. ESMA reminds issuers that the assessment of main business activity is performed **at the reporting entity level**[21]. This means that the conclusions at group level and at subsidiary level could be different. This may require reclassifications of some income and expenses for consolidation purposes. Therefore, group accounting manuals and reporting packages may require targeted reconsideration.

ESMA notes that determining whether investing in assets or providing financing to customers is a main business activity **is a matter of fact** and not merely an assertion. The Standard requires that this assessment is **evidence-based** and provides indicators that may support such evidence (e.g., use of certain subtotals or composition of reporting segments as an important indicator of operating performance)[22]. ESMA outlines that these requirements indicate that insignificant or supplementary activities are **unlikely to meet the criteria** in the Standard for being considered a main business activity. ESMA expects affected issuers (e.g., conglomerates) to **disclose their judgements and the evidence used** to support the assessment of main business activities, where relevant.

Banks, insurance companies and other issuers with 'specified main business activities' (e.g., investment property companies or lessors that provide financing to customers in finance leases) may need to **reconsider the classification of certain items**. In addition to the examples of classification changes (applicable to all issuers) presented above, some banks may, for instance, need to change the presentation of interest expenses related to IAS 19 *Employee Benefits* and IFRS 16 *Leases* from operating income to the financing category. Under IFRS 18, issuers with a main business activity of providing financing to customers should include in operating income only interest expenses arising from transactions that involve raising of finance. Interest expenses on lease liabilities and/or defined benefit liabilities should, therefore, be included in the financing category.

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[15] In this context, please refer to the IFRS IC draft agenda decision on the classification a FX differences arising from the income and expenses from the intragroup monetary assets or liabilities (e.g., an intercompany loan).
[16] Paragraphs B65, B68 of IFRS 18.
[17] Paragraph B55(c) of IFRS 18.
[18] Paragraph 54(c) of IFRS 18.
[19] Paragraph 50 of IFRS 18.
[20] Issuers that provide financing to customers as a main business can also apply an accounting policy choice to classify certain income and expenses in the operating category or the financing category (paragraph 65(a)(ii) of IFRS 18).
[21] Paragraph B37 of IFRS 18.
[22] Paragraph B33 – B36 of IFRS 18.

Presentation of operating expenses by nature and by function

Currently, issuers are required to present an analysis of expenses recognised in profit or loss using a classification based either on their nature or on their function whichever provides information that is reliable and more relevant[23]. IAS 1 encourages but does not require presentation of this analysis on the face of the statement of profit or loss. In contrast, IFRS 18 requires issuers to classify and present operating expenses in the statement of profit or loss in a way that provides **the most useful structured summary**[24]. Applying the requirements in paragraphs B80 and B81 of IFRS 18, issuers present expenses in line items using one or both of the characteristics of nature of expenses or function of expenses. IFRS 18 explicitly allows the use of both characteristics and present some expenses by nature and of other expenses by function. In this context, ESMA emphasises that in case of a mixed presentation in the statement of profit or loss, the resulting line items **shall be labelled in a way that clearly identifies what expenses** are included in each line item[25].

Issuers presenting line items by function are required (i) to present cost of sales separately from other expenses, if they have a cost of sales function, and (ii) to disclose a qualitative description of the nature of expenses included in each functional line item in the notes [26]. Since the composition of 'cost of sales' is not specifically defined under IFRS 18[27], the issuer may also need to apply judgement when determining 'cost of sales'. The composition of 'cost of sales' should, however, be **consistent over time**.

Moreover, issuers that present line items comprising expenses classified by function in the operating category must disclose for each of the five types of 'by nature'-expenses[28] in the notes: (i) the total amount (ii) the amount related to each line item in the operating category, and (iii) a list of any line items outside the operating category that also include amounts relating to the total.

Interaction with other areas

ESMA emphasises that the changes in structure of the statement of profit or loss resulting from the new requirements may require issuers to collect and process data **at a more granular level** than is currently available (e.g., for FX differences, gains and losses on derivatives or the disaggregation of operating expenses). Consequently, early **adjustments to IT systems** may be necessary, as the 2026 comparable figures will also need to be provided.

Finally, issuers should assess how changes in the structure of their statements of profit or loss **may affect** other areas, such as compliance with **debt covenants, income tax calculations** or the design of performance conditions in **management compensation plans**. ESMA notes that in certain industries, financial statement subtotals may also play a role in determining eligibility to participate in tenders or procurement processes.

b) Management-defined performance measures (MPM)

IFRS 18 introduces the **concept of MPM and includes related disclosure requirements** that issuers need to consider when implementing IFRS 18. MPMs are defined in IFRS 18 as 'subtotals of income and expenses that (i) are used by issuers in public communications outside financial statements, (ii) communicate to users of financial statements management's view of an aspect of the financial performance of the issuer as a whole, and (iii) are not listed in paragraph 118 of IFRS 18, or specifically required to be presented or disclosed by IFRS Accounting Standards.'

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[23] Paragraph 99 of IAS 1.
[24] Paragraph 78 of IFRS 18.
[25] Paragraph B82 of IFRS 18.
[26] Paragraph 82(a) of IFRS 18.
[27] The standard only states that this item shall include the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*.
[28] Depreciation, amortisation, employee benefits, impairment losses and reversals of impairment losses, write-downs and reversals of write-downs of inventories (paragraph 83(a) of IFRS 18).

Issuers are required to **disclose in a single note** to the financial statements for each MPM used:

- a description of the aspect of financial performance that it communicates, including why management believes the MPM provides useful information about the issuer's financial performance;
- a description of how the MPM is calculated;
- a reconciliation between the MPM and the most directly comparable subtotal listed in IFRS 18 or total or subtotal required to be presented or disclosed by IFRS Accounting Standards[29], including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;
- a description of how the issuer determined the income tax effect; and
- a statement that the measure reflects management's view of an aspect of financial performance of the issuer as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other issuers.

In addition, issuers are required to provide disclosures if the MPM used is not consistent over time.

ESMA outlines that the MPM-related disclosure requirements in IFRS 18 are generally consistent with the disclosure principles included in the ESMA APM Guidelines[30]. However, ESMA draws issuers' attention to the following aspects of IFRS 18 related to MPM requirements and to **Q&A**[31] that addresses the **interaction between IFRS 18 and the ESMA APM Guidelines**:

Concept of 'Public communications'

ESMA notes that public communications to which IFRS 18 refer – even if they exclude oral communications, written transcripts of oral communications and social media posts – cover a wide range of publications (e.g. management report, prospectuses, press releases, investor presentations[32]). Issuers should, therefore, ensure that all measures disclosed in these publications that meet the definition of an MPM are correctly identified. In this respect, the implementation of a **robust, comprehensive disclosure policy** across issuers' reporting, investor relations and legal departments should significantly contribute to ensuring compliance with the requirements of IFRS 18. In this context, issuers may also need to engage with auditors early in the process to ensure that all requirements of IFRS 18 are complied with and there is **consistency between the information disclosed inside and outside** financial statements.

Measures similar to 'gross profit'

ESMA highlights that paragraph B123 of IFRS 18 provides a **specific and restrictive explanation** of when a subtotal of income and expenses should be considered **similar to gross profit**[33] and is, therefore, not an MPM in accordance with paragraph 118(a) of IFRS 18. Issuers should apply this principle as illustrated by the examples[34] and avoid extending it to measures that fall outside the strict wording of paragraphs 118 and B123.

Representation of the management view

IFRS 18 presumes that a subtotal of income and expenses used in public communications outside financial statements represents **management's view of financial performance**. Issuers may rebut this presumption if they have reasonable and supportable information demonstrating that

[29] ESMA notes that the most directly comparable subtotal in accordance with IFRS 18 may not coincide with the most directly reconcilable line item included in the reconciliation required by the ESMA APM Guidelines.
[30] ESMA Guidelines on Alternative Performance Measures.
[31] This Q&A is available on the ESMA Website (Q&A n. 2775).
[32] Paragraph B119 of IFRS 18.
[33] Revenue minus cost of sales.
[34] Examples in paragraph B123 of IFRS 18 include: (a) net interest income; (b) net fee and commission income; (c) insurance service result; (d) net financial result; and (e) net rental income.

such a subtotal does not communicate management's view. Issuers should disclose material management judgements made in applying the definition of an MPM, including, but not limited to, those related to rebutting this presumption[35].

ESMA encourages issuers to **reconsider the use of APMs** in light of the new defined subtotals. As IFRS 18 specifies a number of subtotals in paragraph 118 as well as operating, investing and financing categories of income and expenses, some currently used APMs may become unnecessary and/or redundant. Reducing the number of APMs may, in turn, ease issuers' reporting burden, as they may not need, for example, to adjust their reporting systems to calculate the effects on income tax and on non-controlling interest for all the APMs that meet the definition of an MPM.

ESMA also urges issuers to **use caution** when reporting new performance measures (e.g. adjusted operating profit) to cater for the impacts arising from the implementation of IFRS 18. ESMA considers that, in some cases, **narrative information may be sufficient** to explain these impacts.

c) Location of information, aggregation/disaggregation and labelling

According to IFRS 18, issuers do not need to separately present a line item in a **primary financial statement** if doing so is not necessary for the statement to provide a **useful structured summary**, even if IFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements[36]. However, if material, issuers will still need to disclose this item in the notes. Conversely, issuers shall present **additional line items and subtotals only if such presentations are necessary** for a primary financial statement to provide a useful structured summary. In those cases, issuers need to ensure compliance with certain requirements[37], including consistency from period to period and avoiding presentation that gives greater prominence to these items than to the totals and subtotals required by IFRS Accounting Standards.

ESMA underlines that, as part of the transition to IFRS 18, issuers **should assess the line items and subtotals** that they currently present in the primary financial statements and the information disclosed in the notes, to determine which **changes might be needed**. In this context, ESMA reminds issuers that IFRS 18 requires the **disclosure in the notes** of the information necessary (i) to enable users to understand the line items presented in the primary financial statements and (ii) to supplement the primary financial statements with additional information to achieve the objective of financial statements[38]. ESMA stresses that the assessment of whether presentation and disclosure of information meet the objective of the Standard should be conducted **for each reporting period**, not just at the initial application of IFRS 18.

Aggregation and disaggregation

ESMA also highlights the requirements in IFRS 18 on aggregation and disaggregation of information included in the financial statements[39]. Issuers are required to aggregate and disaggregate items based both on **their characteristics and the roles** of the primary financial statements and the notes. IFRS 18 generally requires issuers to:

- aggregate items that have similar characteristics, and disaggregate items that have dissimilar characteristics;
- group items in a way that does not obscure material information or reduce the understandability of the information presented; and
- place items in the primary financial statements and the notes to fulfil their complementary roles.

ESMA notes that issuers need to apply judgement to determine **the level of detail** necessary to provide useful information to users of financial statements.

[35] Paragraph 27G of IAS 8.
[36] Paragraphs 23 and B8 of IFRS 18.
[37] Paragraphs 24, 41(c) and B9 of IFRS 18.
[38] Paragraphs 17, B6 and B7 of IFRS 18.
[39] Paragraphs 41, B16 – B23 of IFRS 18.

Labelling

ESMA notes that IFRS 18 requires the use of **informative labels** for line items presented in the financial statements or items disclosed in the notes. For example, IFRS 18 restricts issuers' ability to label items as 'other' to only those situations where no other more informative label can be found[40]. ESMA urges issuers to avoid using the term 'other' as much as possible.

ESMA expects that the **labels** for **additional line items and subtotals** in the statement of profit or loss are **sufficiently clear** and specific to enable users of the financial statements to understand what those line items or subtotals include and/or exclude, without having to search for this information in the notes. Furthermore, these line items or subtotals **should comply with the aggregation and disaggregation** requirements set out in IFRS 18.

Finally, ESMA notes that IFRS 18 **does not define 'earnings before interest, tax, depreciation and amortisation**' (**EBITDA**), a performance measure often used by issuers in their financial communications. However, the Standard specifically lists 'operating profit or loss before depreciation, amortisation and impairments' within the scope of IAS 36' (OPDAI) which may provide similar information to many of the EBITDA measures currently used. ESMA highlights that issuers are **only allowed to label the subtotal OPDAI as EBITDA** if this accurately describes the corresponding measure (e.g., an issuer, applying classification requirements of IFRS 18 correctly, has no income and expenses in the investing category and no interest income in the operating category)[41]. This applies *mutatis mutandis* in relation to other subtotals defined in IFRS 18.

d) Changes to other IFRS Accounting Standards

ESMA notes that the implementation of IFRS 18 affects the application of other IFRS Accounting Standards. For example, under **IAS 7 *Statement of Cash Flows*,** the statement of cash flows prepared using the indirect method will use the **same starting point - operating profit** - for presenting cash flows from operating activities. Moreover, the IASB has removed the existing presentation alternatives for cash flows related to interest and dividends paid and received, which may require some issuers **to change their classification**.

In addition, the IASB amended **IAS 33 *Earnings per Share*** to restrict the option to **disclose additional earnings per share metrics** (beyond basic and diluted earnings per share) calculated using any component of the statement of comprehensive income. Issuers are permitted to disclose such additional earnings per share metrics only when the numerator represents either a total or subtotal identified in IFRS 18 or an MPM. These additional earnings per share metrics **cannot be presented in the primary financial statements** and may only be disclosed in the notes.

e) Interim financial statements

ESMA emphasises that issuers are required to **apply the new requirements in interim financial statements** prepared in accordance with **IAS 34 *Interim Financial Reporting*** in the initial year of application, and to restate comparative information for the prior year in accordance with IAS 8. In this context, issuers are required to present in their interim financial statements **each heading they expect to use and the subtotals** required by paragraphs 69 – 74 of IFRS 18[42].

ESMA notes that paragraph B120 of IFRS 18 clarifies that **MPMs relate to the same reporting period** as the financial statements. This means, in particular, that (i) a subtotal relating to interim financial statements but not to the annual financial statements can only be an MPM in the interim financial statements, and, conversely, (ii) a subtotal relating to annual financial statements but not to interim financial statements can only be an MPM in the annual financial statements.

[40] Paragraphs B25 – B27 of IFRS 18.
[41] See paragraphs BC363-365 of Basis for Conclusions on IFRS 18.
[42] Paragraph C4 of IFRS 18.

III. Transparency on implementation and possible impact of IFRS 18 requirements

ESMA draws issuers' attention to **requirements in paragraphs 30 and 31 of IAS 8** according to which a disclosure of the nature of an impending change or changes in accounting policies needs to be provided when an issuer has yet to implement a new IFRS that has been issued but is not yet effective. For this purpose, paragraph 30 (b) of IAS 8 requires disclosure of 'known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the issuer's financial statements in the period of initial application'.

ESMA expects, therefore, that, in relation to IFRS 18, these disclosures in issuers' interim and annual financial reports for periods ending before 1 January 2027 - provided in a **gradual and efficient manner** - will encompass information about **significant judgements and accounting policies applied by issuers**, including using selected options allowed by the Standard. This may include, for example, a description of changes in the structure of the issuer's statement of profit or loss, information on the assessment of whether the issuer performs 'specified main business activities', and details on measures that are expected to meet the definition of an MPM (including information on whether the issuer plans to discontinue the use of certain measures in public communication or to introduce new ones). Depending on the progress in implementing the IFRS 18 requirements, issuers are encouraged to include the (expected) change in 2026 operating profit or loss and/or in other subtotals resulting from the application of IFRS 18 requirements.

ESMA expects that information on the **anticipated effects** resulting from the application of IFRS 18 **is provided by issuers as soon as it becomes available**. For example, if an issuer finalises its assessment in the first half of 2026, all relevant information should be disclosed in the interim financial statements for the period ending 30 June 2026.

IV. Interaction between IFRS 18 and ESEF markup requirements

The implementation of IFRS 18 significantly changes ESEF reporting practices by reshaping presentation requirements and revising the taxonomy structure. Issuers need to **reassess existing markup practices and to conduct a remapping exercise**, to comply with both the IFRS 18 accounting requirements and ESEF technical requirements. Issuers are also encouraged to **consult the ESEF taxonomy as a core part of the IFRS 18 implementation process**, given that the taxonomy itself provides useful insights into the new structure of the statement of profit or loss, the categorisation of expenses by function or nature, or the presentation of the MPM reconciliation disclosure. To support this, ESMA is including the IFRS Accounting Taxonomy 2025 update inclusive of IFRS 18 in the draft 2025 RTS on ESEF[43], enabling issuers to familiarise themselves and test-run the new taxonomy structure ahead of implementation.

a) Two entry points

The 2025 IFRS Accounting Taxonomy release has introduced significant changes to XBRL files including the use of **two entry points for IAS 1 and IFRS 18**, which has an impact on the ESEF XBRL Taxonomy structure. ESMA will reflect this approach in the upcoming ESEF XBRL files and accommodate both IFRS 18 and IAS 1 presentation options within a unified framework, which allows issuers the opportunity to test and familiarise themselves with the new taxonomy ahead of its mandatory application, ensuring a smoother transition and supporting timely preparation by both issuers and software vendors.

[43] ESMA32-1867552937-3765 Draft Final Report On the draft Regulatory Technical Standards amending Delegated Regulation (EU) 2019/815 as regards the 2025 update of the taxonomy for the European Single Electronic Reporting (ESEF), 11 September 2025.

b) Markup remapping exercise

IFRS 18 introduces mandatory subtotals in the statement of profit or loss (operating profit and profit before financing and income taxes) and the 2025 ESEF taxonomy update provides standard taxonomy elements to account for these. This requires issuers to **review and deprecate any previous extension taxonomy elements** to prevent duplication and improve consistency and comparability. The Standard also mandates classifying income and expenses into operating, investing, and financing categories, with the taxonomy update including specific elements for investment income and expenses, compelling issuers to **remap any previously disaggregated or extended elements to the new standard elements**. Where entity-specific subtotals do not align with the new taxonomy, issuers should create extension elements, ensuring anchoring relationships are included, if necessary.

This transition will impact financial reporting, IT systems, and XBRL mapping. ESMA urges issuers not to take the exercise lightly and start preparations well ahead of time, including the identification of all extension taxonomy elements impacted by the implementation of IFRS 18, updating XBRL mappings and templates (applied not only to current year but also to prior year comparatives) and adjusting anchoring relationships where deprecation is determined not to be required but where the anchoring taxonomy element needs to be updated when it relates to a new standard IFRS 18 element.

c) Dimensional modelling

Finally, to account for the addition of MPMs into financial statements and their reconciliation to IFRS-defined subtotals, the **dual-axis dimensional model** introduced by the IFRS Accounting Taxonomy for IFRS 18 is also present in the 2025 ESEF taxonomy. This is not a requirement but is included to allow the familiarisation of issuers with the potential to mark up an MPM in a structured manner, together with its reconciliation to the nearest IFRS-defined subtotal.