

IFRS 18: What it means for Investment Trusts and Venture Capital Trusts

IFRS 18, effective for periods beginning on or after 1 January 2027, replaces IAS 1 *Presentation of Financial Statements* and introduces a new structure for the statement of profit or loss.

The new standard requires entities to present their statement of profit or loss using mandatory operating, investing and financing categories, together with specified subtotals, including operating profit. IFRS 18 also introduces new disclosure requirements for management-defined performance measures (MPMs), aiming to improve transparency and consistency in financial reporting.

For investment trusts and venture capital trusts (VCTs), IFRS 18's requirements relating to specified main business activities are particularly important because they determine how investment income, fair value movements and certain expenses are classified within the statement of profit or loss.

Specified Main Business Activities

IFRS 18 requires entities to assess whether they engage in certain specified main business activities, including activities where the entity primarily invests in assets to generate returns such as dividends, interest or capital appreciation.

Investment trusts and VCTs will typically meet this definition because they:

- ▶ invest in equity and debt instruments to generate dividend and interest income; and
- ▶ hold investments for capital appreciation.

This classification is significant because it determines where items appear in the statement of profit or loss. For example:

- ▶ Fair-value gains and losses on investments arising from a specified main business activity of investing in assets will be presented within the operating category.
- ▶ Dividend and interest income from the investment portfolio will generally be presented within the operating category where these arise from the entity's core investment activities.
- ▶ Interest costs on borrowings will sit in the financing category because obtaining funding is not the entity's main business activity.

Operating income and expenses

For investment trusts and VCTs with a specified main business activity of investing in assets, the operating category captures the core performance of the investment portfolio together with the costs of managing the investment vehicle.

Investment returns

Dividend income from quoted and unquoted investments, together with interest income earned on debt securities, loan notes and other investment instruments, forms part of operating performance.

For investment trusts and VCTs with a specified main business activity of investing in financial assets, income from cash and cash equivalents is also classified within the operating category. This applies regardless of the purpose for which the cash is held, reflecting the principle that all returns on financial assets form part of the entity's core investment activities.

For VCTs, returns generated from qualifying venture capital investments will also be included within operating category.



Fair-value movements and disposals

Investments measured at fair value through profit or loss (FVTPL) will give rise to gains and losses recognised within the operating category. The movements on investments measured at FVTPL may arise from:

- ▶ market price movements;
- ▶ funding rounds and transaction pricing;
- ▶ earnings performance;
- ▶ discount-rate changes; or
- ▶ exit valuations and realisation events.

Similarly, realised gains and losses arising on disposal of investments measured at FVTPL are presented within the operating category, reflecting that the acquisition, management and disposal of these investments are part of the entity's core business activity.

Operating expenses

Costs incurred in managing the investment portfolio and operating the listed vehicle also fall within the operating category. These will typically include:

- ▶ investment management and performance fees;
- ▶ administration and custody costs;
- ▶ registrar and listing fees;
- ▶ professional and advisory costs; and
- ▶ board, governance and marketing expenses.

This presentation is intended to provide a clearer view of the underlying performance generated from the entity's investment activities before the impact of financing and taxation.

Investing income and expenses

Income and expenses classified within the investing category, for an entity with a main business activity of investing in assets, will comprise:

- ▶ income and expenses from equity-accounting investments in associates, joint ventures and unconsolidated subsidiaries; and
- ▶ specified income and expenses from other assets if they generate a return individually and largely independently of the entity's other resources and investing in those assets is not part of the entity's main business activities.

In practice, it is generally expected that investment trusts and VCTs will not have any income and expense items to be presented within the investing category.

Equity-accounted investments

Income and expenses from equity-accounted investments, including any gains or losses on disposal, should always be classified in the investing category. This may represent a change for some entities where these income and expenses have historically been included within operating profit.

Even where investments in associates or joint ventures are closely aligned to the entity's investment strategy, the share of results must still appear in the investing category rather than the operating category.

Where the equity method is not applied to such investments, the entity must assess if it invests in those assets as a main business activity. If it does have a main business activity of investing in those assets, then it classifies income and expenses relating to those assets in the operating category.

Financing income and expenses

Income and expenses relating to liabilities arising from transactions that involve only the raising of finance are classified in the financing category. For investment trusts and VCTs, this typically includes interest costs on borrowings and gains or losses on modifications of borrowings.

Many investment trusts use derivatives such as interest-rate swaps to manage risks associated with financing the entity. IFRS 18 requires gains and losses on such instruments to be classified in the same category as the income and expenses affected by the risks being managed, regardless of whether hedge accounting is applied.

Accordingly, gains and losses on interest-rate swaps used to hedge borrowings are generally classified within the financing category. By contrast, gains and losses on derivatives used to hedge investments (for example foreign exchange swaps on foreign currency investments) are classified within the operating category

In respect of liabilities arising other than from transactions involving only the raising of finance, IFRS 18 requires the following to be presented within the financing category where separately identified under IFRS Accounting Standards:

- a) interest income and expenses; and
- b) income and expenses arising from changes in interest rates.

For example, a lease liability arises other than from raising finance. Interest expense on the lease liability is therefore classified in the financing category. However, if the lease is modified and a gain or loss is recognised in profit or loss, that gain or loss is generally classified within the operating category, as it does not represent interest income or expense, nor arise from changes in interest rates.



Foreign exchange gains and losses

Many investment trusts and VCTs hold monetary investments denominated in foreign currencies or use foreign currency borrowings and derivatives as part of their investment and treasury strategies. IFRS 18 requires foreign exchange gains and losses to be classified according to the category of the related income, expenses, assets or liabilities giving rise to those movements, unless to do so would involve undue cost or effort.

This means that foreign exchange movements may be presented across different categories within the statement of profit or loss depending on their nature. For example:

- ▶ exchange movements on overseas monetary investments measured at fair value through profit or loss will generally be presented within the operating category;
- ▶ foreign exchange gains and losses arising on investment income, such as overseas dividends or interest income, will typically follow the classification of the related income; and
- ▶ exchange movements arising on borrowings and financing activities will generally be presented within the financing category.

Where derivatives such as forward contracts or currency swaps are used to manage foreign exchange risk, IFRS 18 requires gains and losses on those instruments to be classified in the same category as the risks being managed, regardless of whether hedge accounting is applied.

Subtotals

IFRS 18 mandates the presentation of certain subtotals:

- ▶ ‘Operating profit’, comprising all income and expenses classified in the operating category;
- ▶ ‘Profit or loss before financing and income taxes’, which comprises Operating profit or loss and all income and expenses classified in the investing category; and
- ▶ ‘Profit or loss’, which is the sum of all income and expenses in the statement of profit or loss.

While IFRS 18 introduces mandatory operating, investing and financing categories, many investment trusts will continue to monitor and communicate performance using the traditional distinction between revenue and capital returns. Entities will therefore need to consider how these established reporting conventions interact with the new IFRS 18 presentation requirements and mandated subtotals.

IFRS 18 also requires entities to present additional line items or subtotals where necessary to provide a useful structured summary of financial performance.

Any additional subtotals must:

- ▶ comprise amounts recognised and measured in accordance with IFRS Accounting Standards;
- ▶ be compatible with the structure required by IFRS 18;
- ▶ be consistent from period to period; and
- ▶ not be displayed more prominently than subtotals required by IFRS Accounting Standards.

For investment trusts and VCTs, this may affect the presentation of commonly used performance analysis including revenue and capital returns. Entities will need to consider how these sub-totals are reconciled to, and presented alongside, the IFRS 18 required sub-totals.

Aggregation and disaggregation

IFRS 18 introduces enhanced requirements on aggregation and disaggregation to ensure that financial statements provide a clear and useful summary of an entity’s financial performance.

Entities will be required to group together items that share similar characteristics and separate items whose characteristics are different where this information is material to users of the financial statements. This applies both to the face of the primary financial statements and within the disclosure notes.

For investment trusts and VCTs, this may require a more granular presentation of income and expenses than is currently provided. Examples may include separately presenting:

- ▶ dividend income, interest income and fair-value movements;
- ▶ quoted and unquoted investment performance;
- ▶ recurring management and administration expenses versus performance-related fees; and
- ▶ financing costs arising from different funding arrangements.

IFRS 18 also requires entities to carefully consider whether information currently grouped within broad captions such as “other income”, “administrative expenses” or “net gains on investments” should instead be disaggregated into more meaningful categories.

The level of aggregation should reflect the nature of the investment strategy and the way management and investors monitor performance. For example, a VCT with a significant portfolio of unquoted growth investments may need to provide more detailed information about valuation movements and realised exits than a traditional listed equity investment trust.

These requirements may also affect the presentation of alternative performance measures and KPI reporting, particularly where entities currently rely on highly aggregated line items in the statement of profit or loss.



As part of implementation planning, investment trusts and VCTs should assess whether existing chart-of-account structures, reporting systems and management reporting processes capture information at a sufficiently detailed level to meet the new disclosure and presentation requirements under IFRS 18.

Management-defined performance measures (MPMs)

IFRS 18 introduces requirements for management-defined performance measures (MPMs), which are subtotals of income and expenses that management uses in public communications outside the financial statements and that are not specifically defined or required by IFRS Accounting Standards.

Where an MPM is presented, IFRS 18 requires entities to provide:

- ▶ a clear description of the measure and how it is calculated;
- ▶ a reconciliation between the MPM and the most directly comparable IFRS subtotal (such as operating profit or loss or profit before financing and income taxes);
- ▶ an explanation of why the measure provides useful information about financial performance; and
- ▶ sufficient information to enable users to understand how the MPM is derived and how it relates to IFRS-reported results.

These disclosures must be presented in a note to the financial statements and accordingly will be subject to audit.

Preparing for implementation

IFRS 18 is effective for annual reporting periods beginning on or after **1 January 2027**, with comparatives needing to be restated.

Entities preparing condensed interim financial statements under IAS 34 Interim Financial Reporting will need to present each heading expected under IFRS 18, together with the required subtotals, in interim reporting periods beginning on or after 1 January 2027. Comparatives will also need to be restated in interim financial statements. Reconciliations will be required to explain the transition from IAS 1 presentation to IFRS 18 presentation.

Given the fundamental changes to performance reporting, investment trusts and VCTs should begin assessing the impact early. This includes mapping existing statement of profit or loss line items to the new categories, identifying areas requiring judgement and considering the impact of new subtotals on KPIs, internal reporting and investor communications.

Early planning will support a smoother transition and help ensure the first IFRS 18-compliant results provide a clear and consistent view of performance.

Find out more on our dedicated [IFRS 18 webpage](#).

Examples of measures that may be MPMs

These are typically profit-based subtotals that adjust IFRS results, for example:

- “Adjusted investment return”, excluding unrealised fair-value movements on the investment portfolio;
- “Underlying profit”, which adjusts IFRS profit for non-recurring items such as performance fees or restructuring costs;
- “Adjusted operating profit”, where certain valuation movements or transaction costs are excluded;
- “Realised investment return”, focusing only on gains and losses on disposal of investments.

These measures may qualify as MPMs where they are used in public reporting and represent management’s view of underlying performance.

Examples of measures that are not MPMs

These do not meet the definition of MPMs under IFRS 18 because they are not profit or loss subtotals, for example:

- NAV per share;
- NAV total return;
- movement in net asset value (NAV growth or decline);
- share price total return;
- ongoing charges ratio;
- portfolio yield or dividend yield.

These are typically treated as alternative performance measures (APMs) rather than IFRS 18 MPMs.

Example statement of profit or loss for an investment trust or VCT with a specified main business activity of investing in assets:

Line item	CU'000	Classification
Fair value gains/(losses) on equity instruments	XXX	
Fair value gains/(losses) on debt instruments	(XXX)	
Dividend income on equity instruments	(XXX)	Operating category
Interest received on debt instruments	XXX	
Interest received on cash and cash equivalents	XXX	
Total net investment income	(XXX)	Additional sub-total
Investment management fees	XXX	Operating category
Administrative expenses	(XXX)	
Operating Profit	XXX	Mandatory sub-total
Share of profit of associates and joint ventures accounted for using the equity method	XXX	Investing category
Interest expense on bank loans	(XXX)	Financing category
Foreign exchange gains/(losses) on bank loans	XXX	Financing category
Profit before income taxes	XXX	Mandatory sub-total
Income tax expense	XXX	Income taxes category
Profit from continuing operations	XXX	Additional sub-total
Loss from discontinued operations	XXX	Discontinued operations category
Profit	XXX	Mandatory total

Investment Trusts and VCTs may continue to present revenue, capital and total columns in their statement of profit or loss providing that such presentation continues to be compatible with the requirements of IFRS 18 and is consistent from period to period.

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