IFRS Accounting

Staff paper

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IFRS® Interpretations Committee meeting

Date	**September 2025**
Project	**Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)**
Topic	**Initial consideration**
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity, when applying IFRS 18 *Presentation and Disclosure in Financial Statements*, classifies in its consolidated statement of profit or loss a foreign exchange difference if the income and expenses from the item that gave rise to that foreign exchange difference have been eliminated on consolidation.[1]

2. The objective of this paper is:

   (a) to provide the Committee with a summary of the matter;

   (b) to present our research and analysis; and

   (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

[1] For simplicity, we use the term 'exchange difference' (as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*) in this paper to refer to a foreign exchange difference in the context of paragraph B65 of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Structure

3. This paper includes:

   (a) background and summary of the submission (paragraphs 5–12);

   (b) evidence of 'widespread and material effect' (paragraphs 13–16);

   (c) staff analysis (paragraphs 17–32);

   (d) whether to add a standard-setting project to the work plan (paragraphs 33–37); and

   (e) staff recommendation (paragraphs 38–39).

4. There are two appendices to this paper:

   (a) Appendix A—suggested wording for the tentative agenda decision; and

   (b) Appendix B—submission.

Background and summary of the submission

5. In the fact pattern described in the submission, a parent[2]—the reporting entity—enters into a loan with a subsidiary (intragroup loan). The parent and the subsidiary have different functional currencies. This intragroup loan:

   (a) is denominated in a currency that is the functional currency of either the parent or the subsidiary; and

   (b) is not part of the parent's net investment in the subsidiary.[3]

6. Applying paragraphs 20–34 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the entity for which the intragroup loan is a foreign currency transaction would, on initial recognition, recognise and measure the loan using the spot exchange rate at

[2] Appendix A of IFRS 10 *Consolidated Financial Statements* defines a 'parent' as '[a]n entity that controls one or more entities'.

[3] Applying paragraph 32 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, exchange differences arising on an intragroup loan that forms part of the entity's net investment in a subsidiary that is a foreign operation would be classified in other comprehensive income in the group's consolidated financial statements.

the date of the transaction. Because the loan is a monetary item, the entity would at the end of each subsequent reporting period translate the loan using the closing rate and recognise any resulting exchange difference in profit or loss.

7. Applying paragraph B86(c) of IFRS 10 *Consolidated Financial Statements* the parent, in preparing its consolidated financial statements, would eliminate in full the intragroup loan and any resulting intragroup income and expenses. However, the parent would not eliminate the exchange difference. Paragraph 45 of IAS 21 states:

> The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see IFRS 10 *Consolidated Financial Statements*). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss…

8. Paragraph 47 of IFRS 18 requires the parent to classify income and expenses included in the consolidated statement of profit or loss in one of five categories:

   (a) the operating category;

   (b) the investing category;

   (c) the financing category;

   (d) the income tax category; and

   (e) the discontinued operations category.

9. Paragraph B65 of IFRS 18 states:

> To apply paragraph 47, an entity shall classify foreign exchange differences included in the statement of profit or loss applying IAS 21 in the same category as the income and expenses from the items that gave rise to the foreign exchange differences, unless doing so would involve undue cost or effort (see paragraph B68).

10. The submitter asks how the parent applies paragraph B65 of IFRS 18 when classifying, in its consolidated statement of profit or loss, the exchange difference if the income and expenses from the item that gave rise to that exchange difference have been eliminated on consolidation.

11. The submitter identifies five views. Under these views, the parent would classify the exchange difference in its consolidated statement of profit or loss as follows:

(a) **View 1**—in the same category as the income and expenses from the intragroup loan would have been classified if those income and expenses had not been eliminated on consolidation.[4]

(b) **View 2**—in the financing category because the exchange difference results from a transaction that, in substance, relates to the raising of (intragroup) finance.

(c) **View 3**—in the investing category because the exchange difference, in substance, arises due to a transfer of cash from one currency into another currency for a period of time.

(d) **View 4**—in the operating category. Because the income and expenses from the intragroup loan have been eliminated on consolidation, the parent cannot apply paragraph B65 of IFRS 18 to classify the exchange difference. Consequently,

[4] We have rephrased View 1 from how View A has been described in the submission to align with our analysis in this paper. Paragraphs 25–26 of our analysis consider any differences between View A as described in the submission and View 1 as phrased in this paragraph.

applying paragraph 52 of IFRS 18, the parent classifies the exchange difference (by default) in the operating category.

(e) **View 5**—by applying any of the first four views consistently following an accounting policy choice because IFRS 18 does not have explicit requirements on how to classify the exchange difference.

12. The submission—reproduced in Appendix B—includes further information about the views and the rationale for those views.

Evidence of 'widespread and material effect'

13. The purpose of any information requests we send to stakeholders is to understand whether a submission meets the criteria in paragraph 5.16(a) of the IFRS Foundation's *Due Process Handbook*. We consider:

(a) the prevalence of the transaction or fact pattern submitted; and

(b) whether there is widespread diversity in the accounting applied to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.

14. We did not send an information request related to this submission—and proceeded to analyse the question submitted—for the following reasons:

(a) most entities are in the process of applying—but have not yet applied—IFRS 18. Accordingly, stakeholders would be unable to comment on the existence of diversity in the application of the applicable requirements.

(b) the submitter notes:

(i) intragroup loans denominated in foreign currencies are not uncommon across multinational groups and affect a broad range of entities. The resulting exchange differences that remain in the consolidated financial statements can be large.

(ii) they are aware of entities concluding the requirements are unclear as those entities work through their IFRS 18 implementation projects.

(c) we have had informal conversations with some stakeholders (including for example, accounting firms and preparers) that have confirmed the points in paragraph (b). Those stakeholders have informed us about discussions they have had on the same question as that raised by the submitter and these conversations have confirmed that stakeholders understand the applicable requirements differently.

15. In our view, the evidence gathered indicates:

(a) intragroup loans and resulting exchange differences that remain on consolidation can be prevalent and the amounts involved can be large; and

(b) differences in understanding the applicable requirements could result in diversity in applying those requirements once IFRS 18 becomes effective.

16. Consequently, we did not perform outreach on this submission because we obtained sufficient understanding of the widespread effect of the matter from the evidence referred to in the submission and from discussions with stakeholders.

Staff analysis

Summary of staff view

17. Paragraph B65 of IFRS 18 (reproduced in paragraph 9 of this paper) contains requirements for classifying exchange differences in the statement of profit or loss. Based on our analysis in paragraphs 19–31, we think a reasonable reading of the applicable requirements results in the entity classifying the exchange difference either:

(a) in the same category in which it would have classified the income and expenses from the intragroup loan if those income and expenses had not been eliminated on consolidation, or, if doing so would involve undue cost or effort, in the operating category; or

(b) in the operating category as the default category applying paragraph 52 of IFRS 18.

18. We think the entity would apply its reading of the requirements consistently to the classification of all similar exchange differences (that is, exchange differences arising from an item for which the income and expenses from that same item have been eliminated on consolidation).

Applying the applicable requirements

19. Paragraph B65 of IFRS 18 requires an entity to classify exchange differences in the same category as the income and expenses from the items that gave rise to the exchange differences, unless doing so would involve undue cost or effort.

20. We first considered what is the item that gives rise to the exchange difference in the fact pattern. Paragraph 45 of IAS 21 (reproduced in paragraph 7 of this paper) explains that it is the intragroup monetary liability (or asset)—the intragroup loan in the fact pattern described in the submission—that gives rise to an exchange difference in the consolidated statement of profit or loss even though that monetary item has itself been eliminated on consolidation. The monetary item—as a commitment to exchange currencies—exposes the group to a gain or loss through currency fluctuations.

21. We think that in applying paragraph B65 of IFRS 18, the parent could reasonably conclude that it should classify the exchange difference considering how the income and expenses from the intragroup loan would have been classified had those income and expenses not been eliminated on consolidation.

22. Our reasoning comprises:

(a) paragraph B86 of IFRS 10—which sets out requirements for how a parent prepares consolidated financial statements (including related requirements for eliminations to be made on consolidation)—uses the phrase 'offset (eliminate)…' in paragraph B86(b). We think this means that eliminating intragroup balances as required by IFRS 10 is the same as offsetting those balances.

(b) IFRS 10 does not define the term ‘offset’ or ‘eliminate’. Paragraph 7.10 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework), however, states ‘[o]ffsetting occurs when an entity recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position…’. We think it is reasonable to infer from paragraph 7.10 of the Conceptual Framework that eliminating the intragroup loan does not mean that the loan does not exist in the consolidated financial statements. Rather, the intragroup loan has been offset for presentation purposes. While paragraph 7.10 of the Conceptual Framework is in the context of items that are offset in the statement of financial position, we think it is reasonable to consider that this concept of offsetting also applies to income and expenses that are offset in the statement of profit or loss.[5] Accordingly, we think it is reasonable to conclude that eliminating income and expenses arising from an intragroup loan on consolidation does not mean that those income and expenses do not exist; rather, those income and expenses have been offset for presentation purposes.

(c) while the Basis for Conclusions on IFRS 18 does not explicitly discuss the fact pattern described in the submission, we think considering how the income and expenses from the intragroup loan would have been classified when determining the classification of the exchange difference aligns with the IASB’s rationale in developing paragraph B65 of IFRS 18. Paragraph BC209 of the Basis for Conclusions on IFRS 18 states that ‘…classifying foreign exchange differences in the same category as income and expenses from the items that give rise to the foreign exchange differences contributes to a faithful representation of an entity’s business activities…’.

[5] Paragraphs 44–45 of IFRS 18 refer to offsetting assets and liabilities or income and expenses.

23. Applying the approach set out in paragraph 21 of this paper to the fact pattern described in the submission, assume, as an example, that the exchange difference arose in the entity within the group that received the loan (that is, the borrower). In that circumstance, the parent, in its consolidated financial statements, would classify the exchange difference in the financing category because any interest expense on the loan (which has been eliminated against the corresponding interest income on consolidation) would have been classified in the financing category.

Undue cost or effort

24. Paragraph B65 of IFRS 18 includes an 'undue cost or effort' exemption that, if applicable, requires an entity to classify the exchange difference in the operating category in accordance with paragraph B68 of IFRS 18.[6] Therefore, in the fact pattern described in the submission, if the parent determines that classifying the exchange difference from the intragroup loan as set out in paragraph 21 of this paper would involve undue cost or effort, it classifies the exchange difference in the operating category.

Comparison with View A in the submission

25. The approach set out in paragraph 21 of this paper—which aligns with View 1 in paragraph 11(a) of this paper—is similar to, but not the same as, View A set out in the submission. View A in the submission states that the classification of the exchange difference in the consolidated financial statements follows the classification of the exchange difference in the separate financial statements of the entity within the group in which that exchange difference arose. While the outcome of applying View 1 in this paper and View A in the submission might be the same in many situations, we think the outcome might not always be the same.

[6] Paragraphs BC210–BC212 of the Basis for Conclusions on IFRS 18 explain that entities might record all foreign exchange differences in aggregate as a single amount and, therefore, might not be able to allocate some foreign exchange differences to the applicable categories without undue cost or effort. The exemption applies only to those foreign exchange differences that cannot be allocated to the applicable categories without undue cost or effort.

26. For example, the main business activities of the entity within the group for which the intragroup loan is a foreign currency transaction might differ from the main business activities of the reporting entity. As a result, the income and expenses arising from the intragroup loan might be classified differently in the separate financial statements of that entity from how those income and expenses would have been classified in the consolidated financial statements of the reporting entity.[7]

Is an alternate reading of the requirements possible?

27. We considered whether there could be other reasonable ways to apply the requirements to the fact pattern described in the submission.

28. We think the parent could reasonably conclude that it can apply paragraph B65 of IFRS 18 only if there is a 'category' within which income and expenses arising from the item that gave rise to the exchange difference are presented. In the fact pattern described in the submission, the income and expenses arising from the intragroup loan have been eliminated on consolidation and are consequently not presented in the consolidated statement of profit or loss. In this situation, we think the parent reasonably could conclude that there is no 'same' category within which it can classify the exchange difference and, therefore, it classifies the exchange difference in the *operating* category as the default category applying paragraph 52 of IFRS 18.[8]

29. The approach set out in paragraph 28 of this paper aligns with View 4 set out in paragraph 11(d) of this paper.

[7] See, for example, paragraphs 65–66 of IFRS 18.

[8] Paragraph 52 of IFRS 18 states that an entity shall classify in the operating category all income and expenses included in the statement of profit or loss that are not classified in the investing, the financing, the income tax or the discontinued operations categories.

Other views included in the submission

30. We disagree with View 2 (paragraph 11(b) of this paper) and View 3 (paragraph 11(c) of this paper). In particular:

    (a) as we explain in paragraph 20 of this paper, it is the intragroup loan that gives rise to an exchange difference in the consolidated statement of profit or loss. Accordingly, we think it is inappropriate to say that the exchange difference arises from a transfer of cash (that is, View 3).

    (b) as we explain in paragraph 6 of this paper, the entity within the group for which the intragroup loan is a foreign currency transaction would recognise the exchange difference. This entity can be the borrower or the lender. Accordingly, we think it is inappropriate to say that the exchange difference arises from a transaction that involves only the raising of (intragroup) finance (that is, View 2).

31. Consequently, we also disagree with view 5 (set out in paragraph 11(e) of this paper) which states that a parent would develop an accounting policy by applying any of Views 1 to 4 consistently. Because we disagree that Views 2 and 3 represent acceptable applications of the requirements, we also find View 5 to not be acceptable.

Staff view

32. We summarise our conclusion in paragraph 17 of this paper.

Question 1 for the Committee
Does the Committee agree with our analysis of the application of the requirements in IFRS 18 included in paragraphs 17–32 of this paper?

Whether to add a standard-setting project to the work plan

33. Paragraph 5.16 of the IFRS Foundation *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan only if all of the following criteria are met:

(a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;

(b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;

(c) the matter can be resolved efficiently within the confines of the existing Standards and the Conceptual Framework; and

(d) the matter is sufficiently narrow in scope that the IASB or the Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the IASB or the Committee and stakeholders to undertake the due process required to change a Standard.

34. We considered the criterion set out in paragraph 5.16(a) of the *Due Process Handbook* as discussed in paragraphs 13–16 of this paper. Our view, based on evidence gathered, is that intragroup loans and resulting exchange differences that remain in the statement of profit or loss on consolidation can be prevalent and the amounts involved can be large. Differences in understanding the applicable requirements could result in diversity.

35. Based on our analysis in paragraphs 17–32 of this paper, we think:

(a) any potential diversity in applying the requirements to the fact pattern described in the submission would be limited to following one of the two approaches summarised in paragraph 17.

(b) the inclusion in paragraph B65 of IFRS 18 of an undue cost or effort exemption (as discussed in paragraph 24 of this paper) could result in entities that apply only the view described in paragraph 17(a) of this paper classifying exchange differences differently depending on the applicability of the undue cost or effort exemption to their facts and circumstances.

(c) despite possible diversity in classifying the exchange differences, users of financial statements will be able to understand how entities have classified material exchange differences, including those described in the submission. When applicable, an entity would consider disclosing, for example:

(i) the amount of exchange differences recognised in profit or loss (paragraph 52(a) of IAS 21) and the line items in the statement of profit or loss in which the exchange differences are included (paragraph 114 of IFRS 18);

(ii) material accounting policy information (paragraph 27A of IAS 8 *Basis of Preparation of Financial Statements*); and

(iii) judgements, apart from those involving estimations, that management have made in the process of applying the entity's accounting policies and that have a significant effect on the amounts recognised in the financial statements (paragraph 27G of IAS 8).

36. In our view, in assessing the criteria in paragraphs 5.16(b)–5.16(d) of the *Due Process Handbook*:

(a) it would be necessary to add or change requirements in IFRS 18 to eliminate potential diversity discussed in paragraph 35 of this paper.

(b) the IASB could undertake standard-setting to clarify which of the two readings set out in paragraph 17 of this paper a parent should apply. However, we are not convinced at this stage that the expected benefits of such standard-setting would outweigh the expected costs. In particular:

(i) requiring all entities to apply the reading set out in paragraph 17(a) of this paper could still result in entities classifying similar exchange differences in different categories depending on their facts and circumstances—see paragraph 35(b). While entities would not be able to apply the reading in paragraph 17(b) of this paper, and thereby classify the exchange difference in the operating category as the default category, entities might still classify the exchange difference in the operating category if doing otherwise would involve undue cost or effort.

(ii) requiring all entities to apply the reading set out in paragraph 17(b) of this paper would result in all entities classifying exchange differences as described in the fact pattern in the submission consistently in the operating category. However, we think such an approach could contradict the IASB's rationale for developing the requirements in paragraph B65 of IFRS 18 as set out in paragraphs BC207–BC219 of the Basis for Conclusions on IFRS 18.

(iii) entities are currently preparing to apply IFRS 18 by the effective date of 1 January 2027 and undertaking standard-setting at this stage—particularly given our assessment of the effect of any potential diversity as set out in paragraph 35 of this paper—could unduly disrupt those efforts.

37. Based on our analysis, we think, on balance, the expected benefits of a standard-setting project that would aim to clarify the accounting in the fact pattern described in the submission would not outweigh the costs.

Staff recommendation

38. For the reasons described in paragraphs 33–37, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that explains how a parent applies the requirements in IFRS 18 to the fact pattern described in the submission.

39. Appendix A to this paper sets out the suggested wording of the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.[9]

Questions for the Committee

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 3. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper?

[9] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—Suggested wording of the tentative agenda decision

Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18 *Presentation and Disclosure in Financial Statements*)

The Committee received a request about the classification of a foreign exchange difference from an intragroup monetary liability (or asset). Paragraph B65 of IFRS 18 *Presentation and Disclosure in Financial Statements* requires an entity to 'classify foreign exchange differences included in the statement of profit or loss applying IAS 21 [*The Effects of Changes in Foreign Exchange Rates*] in the same category as the income and expenses from the items that gave rise to the foreign exchange differences...'.

The request asked how an entity, when applying paragraph B65 of IFRS 18, classifies a foreign exchange difference when the income and expenses from the intragroup monetary liability (or asset) that gave rise to the foreign exchange difference have been eliminated on consolidation.

Fact pattern

In the fact pattern described in the request, an entity (the parent) enters into a loan with a subsidiary (intragroup loan). The parent and the subsidiary have different functional currencies. This intragroup loan:

a. is denominated in the functional currency of either the parent or the subsidiary; and

b. is not part of the parent's net investment in the subsidiary.

The entity in the group for which the intragroup loan is a foreign currency transaction applies IAS 21 to translate the loan to its functional currency and recognises any resulting exchange difference in profit or loss (the exchange difference). Applying paragraph B86 of IFRS 10 *Consolidated Financial Statements*, the parent, in preparing its consolidated financial statements, eliminates in full the intragroup assets, liabilities, income, expenses and cash flows relating to the loan. However, in accordance with paragraph 45 of IAS 21, the parent recognises the exchange difference in profit or loss.

Applying the requirements in IFRS Accounting Standards

The Committee observed that a reasonable reading of paragraph B65 of IFRS 18 applied to the fact pattern described in the submission results in two possible ways (described as View I and View II in this agenda decision) to classify the exchange difference.

View I—classify the exchange difference in the same category in which the parent would have classified the income and expenses from the intragroup loan if those income and expenses had not been eliminated on consolidation, or, if doing so would involve undue cost or effort, in the operating category

The Committee observed that:

a. paragraph 45 of IAS 21 explains that it is the intragroup monetary liability (or asset)—the intragroup loan in the fact pattern described in the request—that gives rise to the exchange difference in the consolidated statement of profit or loss even though that monetary item has itself been eliminated on consolidation.

b. paragraph B86(b) of IFRS 10 *Consolidated Financial Statements* refers to 'offset (eliminate)…' in the context of the requirement to offset the carrying amount of a parent's investment in each subsidiary and the parent's portion of equity of each subsidiary when preparing consolidated financial statements. Paragraph 7.10 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) explains that offsetting occurs when an entity recognises and measures both an asset and a liability as separate units of account but groups them into a single net amount in the statement of financial position.

c. applying the concept of offsetting in paragraph B86(b) of IFRS 10 and paragraph 7.10 of the *Conceptual Framework* to the fact pattern described in the request, the parent could reasonably conclude that eliminating income and expenses on consolidation as required by paragraph B86(c) of IFRS 10 is the same as offsetting those income and expenses and, therefore, does not mean that those income and expenses do not exist in the consolidated financial statements; rather, those income and expenses have been offset for presentation purposes.

d. applying paragraph B65 of IFRS 18, it would be reasonable for the parent to consider the category in which the income and expenses arising from the intragroup loan would have been classified had they not been eliminated on consolidation and to classify the exchange difference in that same category.

e. applying paragraphs B65 and B68 of IFRS 18, if classifying the exchange difference in the same category in which the income and expenses from the intragroup loan would have been classified (had they not been eliminated) would involve undue cost or effort, the parent classifies the exchange difference in the operating category.

View II—classify the exchange difference in the operating category as the default category applying paragraph 52 of IFRS 18.

The Committee observed that the income and expenses arising from the intragroup loan have been eliminated on consolidation and are consequently not presented in the consolidated statement of profit or loss. The parent could therefore reasonably conclude that it cannot classify the exchange difference applying paragraph B65 of IFRS 18 because there is no 'same' category in which it can classify the exchange difference.

The parent would then, by default, classify the exchange difference in the operating category applying paragraph 52 of IFRS 18.

Other observations

The Committee observed that an entity would apply its reading of the requirements—that is, View I or View II as described in this agenda decision—consistently to the classification of all similar exchange differences (that is, exchange differences arising from an item for which the income and expenses from that same item have been eliminated on consolidation).

Conclusion

In the light of its analysis, the Committee considered whether to add a project to its standard-setting agenda. The Committee observed that the expected benefits of a standard-setting project to clarify the classification of the exchange difference in the fact pattern described in the submission would not outweigh the costs. In particular, the Committee had not obtained sufficient evidence [to date] that the outcome of applying the two views outlined in this agenda decision would have a material effect on those affected. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Appendix B—Submission

Classification of foreign exchange differences on intercompany borrowings

Background

IFRS 18 includes certain requirements (see paragraph B65 of IFRS 18) on the classification of foreign exchange (FX) differences included in the statement of financial performance. FX differences might arise, for example, in the separate financial statements of a subsidiary when a parent entity provides an intercompany loan denominated in the parent's functional currency to its subsidiary and the subsidiary's functional currency differs from that of the parent.

Such FX differences may also arise in the parent's separate financial statements when the parent provides a loan in the subsidiary's functional currency and when the functional currency of the parent is different to that of the subsidiary.

IFRS 18 does not provide explicit guidance on the classification of FX differences that remain in the consolidated financial statements even though the underlying intercompany transaction is eliminated.

Assume that the intercompany balances are not related to working capital (when any foreign exchange would be classified in the operating category upon consolidation) and are also not considered net investments in the subsidiary (when any foreign exchange would be classified in OCI upon consolidation). The intercompany loan arises from a transaction that involves only the raising of finance in the separate financial statements of the entity that receives the cash.

Through this submission we are aiming to clarify which treatment would be acceptable when classifying FX differences on intercompany loans in the consolidated statement of financial performance when the underlying asset and liability are eliminated on consolidation.

Even though IFRS 18 is not yet effective, we ask the IFRS Interpretations Committee (IFRS IC) to consider this application question based on paragraph 5.16 of the IASB's Due Process Handbook due to the following:

a. Intercompany transactions, particularly intercompany loans in foreign currencies, are likely to be encountered across multinational groups. The resulting FX differences that remain in the consolidated financial statements are often material and affect a broad range of IFRS preparers.

b. IFRS 18 does not explicitly address the classification of such FX differences in consolidated financial statements when the underlying intercompany transaction is eliminated. We think this lack of guidance will lead to inconsistent application and reduced comparability because we are aware of preparers currently concluding that the guidance is not clear as they work through their implementation projects. Many of these preparers acknowledge that the default category under IFRS 18 is the operating category. However, this seems to be counterintuitive when the business rationale for intercompany funding is financing and most IFRS reporters present the forex on these arrangements in the financing category under IAS 1.

c. The issue can be addressed within the scope of IFRS 18, particularly paragraph B65, which provides a principle for classifying FX differences. Therefore, a narrow clarification, specifically with regard to such FX differences in consolidated financial statements when the underlying intercompany transaction is eliminated, would be sufficient without requiring further amendments to the standard.

d. The issue is narrowly defined—limited to FX differences on intercompany loans eliminated on consolidation—but has significant implications for financial reporting consistency and system implementation.

In addition, given the absence of a Transition Resource Group (TRG) for IFRS 18, we request the IFRS IC to address this issue.

Question and views

How should the FX differences arising on intercompany borrowings be classified in the consolidated financial statements?

View A - Based on the category in the separate financial statements

The FX differences in the consolidated financial statements should follow the same classification as in the separate financial statements where the foreign exchange difference arose.

As per paragraph B65 of IFRS 18, an entity should classify FX differences included in the statement of financial performance, applying IAS 21, in the same category as the income and expenses from the items that resulted in the FX differences unless doing so would involve undue cost or effort. Notwithstanding that the assets and liabilities are eliminated on consolidation, that does not alter the fact that the underlying FX differences arose from the related asset or liability.

If, for example, the FX difference is classified in the subsidiary's separate financial statements in the financing category, the FX difference would also be classified in the financing category upon consolidation. Similarly, if the FX difference arises in the entity that provided the financing, the FX difference would be presented in the investing category upon consolidation.

View B - Financing category

From a consolidated perspective, the group considers the overall nature of the transaction to be one that results from only the raising of (intercompany) financing. Therefore, upon consolidation, the FX difference will be classified in the financing category, irrespective of which entity in the group provided the loan.

View C - Investing category

On a consolidated level it can be argued that the FX difference arises due to the transfer of cash from one currency into another currency for a period of time. The group is exposed to the FX difference because of the transfer of cash for a period of time.

As per paragraph 53 of IFRS 18, income and expenses from cash and cash equivalents should be classified in the investing category, unless the entity has a specified main business activity.

View D - Operating category

The operating category is the 'residual' category for income and expenses and there is no related underlying transaction on consolidation.

The FX difference cannot be classified in the same category as the income and expenses from the items that resulted in the FX difference as the item (i.e. the intercompany borrowing) does not exist in the consolidated financial statements.

Therefore, the classification of this item defaults to the operating category in the consolidated statement of financial performance.

View E – Accounting policy choice

IFRS 18 has no explicit guidance on the classification of FX differences on intercompany borrowings which are eliminated on consolidation. All of the above views have merit based on IFRS 18 and, therefore, any of the above approaches will be acceptable for the classification of the FX differences. The accounting policy should be applied consistently.