
IASB[®] meeting

Date	April 2026
Project	Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure (IFRS 18)
Topic	Finalisation of agenda decision
Contacts	Iliriana Feka (ifeka@ifrs.org)

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Introduction

1. At its March 2026 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about how an entity applies IFRS 18 *Presentation and Disclosure in Financial Statements* to classify gains or losses on a derivative financial instrument in its consolidated statement of profit or loss. The Committee instead decided to finalise an agenda decision that explained its reasons for not adding a standard-setting project.
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

Summary of the fact pattern

3. In November 2025, the Committee discussed how an entity applies IFRS 18 to classify any gain or loss on a derivative financial instrument that is used to manage the foreign currency risk of a net liability exposure, but is not designated as a hedging instrument applying IFRS 9 *Financial Instruments*.

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4. The agenda decision—reproduced in the [Appendix](#) to this paper—describes the fact pattern considered by the Committee.
 5. The submission asked how the entity, applying IFRS 18, classifies any gain or loss arising from the external derivative in its consolidated statement of profit or loss.

The Committee's analysis and conclusions

6. The agenda decision—reproduced in the [Appendix](#) to this paper—sets out the applicable requirements in IFRS 18 and the Committee's analysis of the application of those requirements to the fact pattern.
7. The Committee observed that, based on the application guidance in paragraphs B70–B76 of IFRS 18, an entity first needs to identify the risk(s) a derivative is used to manage. Doing so enables the entity to determine the categories in profit or loss that are affected by that risk and the resulting classification of gains or losses on that derivative.
8. The Committee observed that, in the fact pattern described in the submission:
 - (a) consistent with the group's risk management policy, the external derivative is used to manage only the foreign currency risk of the net liability exposure—not the gross exposures (the investing asset and the financing liability).
 - (b) the external derivative is used to manage foreign currency risk of the net *liability* exposure. Parent P classifies the interest expense from the financing liability in the financing category. Therefore, applying paragraph B72 of IFRS 18, Parent P is required to classify any gain or loss on the external derivative in the financing category of its consolidated statement of profit or loss, unless doing so would require the grossing up of gains and losses or involve undue cost or effort.
 - (c) Parent P assessed that the undue cost or effort exemption is not applicable.

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- (d) the external derivative is used to manage only the net liability foreign currency exposure, which affects a *single* category of the consolidated statement of profit or loss—the financing category. Therefore, classifying gains or losses on the external derivative in the financing category would not require the grossing up of such gains or losses. As a result, the entity is required to classify any gain or loss on the external derivative in the financing category of its consolidated statement of profit or loss.
9. Based on its analysis, the Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for the classification of gains or losses on a derivative—in accordance with an entity’s risk management policy—that is used to manage an identified risk but is not designated as a hedging instrument applying IFRS 9. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published a [tentative agenda decision](#).

Feedback on the tentative agenda decision

10. The Committee received 20 comment letters on its tentative agenda decision by the comment letter deadline.¹ [Agenda Paper 8](#) for the Committee’s March 2026 meeting (March 2026 agenda paper) summarised respondents’ comments and set out our analysis of those comments.
11. Of the 20 respondents:
- (a) nineteen respondents agreed with the Committee’s analysis and tentative decision not to add a standard-setting project to the work plan for the reasons set out in the tentative agenda decision.
 - (b) one respondent agreed with the tentative decision not to add a standard-setting project to the work plan but disagreed with the Committee’s analysis of the

¹ At the date of posting this agenda paper, there were no late comment letters.

applicable requirements. This respondent said that ‘entities should be allowed to retain the classification [of gains and losses on a derivative instrument] based on a subsidiary’s main business activities in the parent’s consolidated statement of profit or loss’.

12. Some of these respondents raised other comments about the tentative agenda decision, including suggestions to consider another fact pattern or requests to clarify the application guidance in IFRS 18.
13. For reasons explained in the March 2026 agenda paper, we continued to agree with the Committee’s analysis and conclusions set out in the tentative agenda decision and recommended no action in response to the feedback.

The Committee’s discussion and feedback

14. The Committee considered the feedback at its March 2026 meeting.
15. All 14 Committee members voted to finalise the agenda decision with no changes (other than to remove the square brackets indicating the tentative stage of the agenda decision). The [Appendix](#) to this paper includes the wording of the agenda decision approved by the Committee.

Questions

Do you object to the Committee’s:

- a. decision not to add a standard-setting project to the work plan?
- b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—The agenda decision

A1. The agenda decision below was approved by the Committee at its March 2026 meeting.

Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure (IFRS 18 *Presentation and Disclosure in Financial Statements*)

The Committee received a request about how an entity applies the requirements in paragraphs B70–B76 of IFRS 18 to classify gains or losses on a derivative financial instrument in its consolidated statement of profit or loss. The derivative is a forward contract that is used to manage the foreign currency risk of a net liability exposure, but is not designated as a hedging instrument applying IFRS 9 *Financial Instruments*.

The request asked how the entity, applying IFRS 18, classifies any gain or loss arising from the derivative in its consolidated statement of profit or loss.

Fact pattern

An entity (Parent P) has three subsidiaries—Subsidiary A, Subsidiary B and Treasury Entity—that it consolidates when preparing its consolidated financial statements. Subsidiaries A and B have the same functional currency (LC) and have the following loans denominated in foreign currency (FC):

- a. Subsidiary A issued a loan to a third party of FC100 (investing asset);
- b. Subsidiary B obtained a loan from a different third party of FC120 (financing liability).

Therefore, the group has a net liability exposure of FC20.

Applying paragraph 49 of IFRS 18, Parent P assesses that—for the purposes of its consolidated financial statements—it does not have a specified main business activity of investing in particular types of assets or of providing financing to customers. Consequently, in its consolidated financial statements, Parent P classifies the interest income from the investing asset in the investing category and the interest expense from the financing liability in the financing category. Applying paragraph B65 of IFRS 18, Parent P classifies any related foreign exchange differences in the same category as the interest income and interest expense from those financial instruments.

To manage the foreign currency risk of the group's net liability exposure, Treasury Entity enters into a forward contract with a third party at a notional amount of FC20 to sell local currency and buy foreign currency (external derivative).

Consistent with the group's risk management policy, the purpose of the external derivative is to manage the identified foreign currency risk of the net liability exposure, not the group of gross exposures (the investing asset and the financing liability) that make up the net exposure.

Parent P does not designate the external derivative as a hedging instrument applying IFRS 9.

Parent P assesses that the undue cost or effort exemption in paragraph B72 of IFRS 18 is not applicable. In particular, Parent P has identified the link between the external derivative and the risk it uses that derivative to manage.

Treasury Entity also enters into intercompany derivatives (internal derivatives) with:

- a. subsidiary A at a notional amount of FC100, to sell foreign currency and buy local currency; and
- b. subsidiary B at a notional amount of FC120, to sell local currency and buy foreign currency.

Applicable requirements

Paragraphs B70–B76 of IFRS 18 provide application guidance an entity applies when classifying gains and losses on derivatives and designated hedging instruments. Paragraph B72 of IFRS 18 requires an entity to classify gains and losses on a derivative that is not designated as a hedging instrument applying IFRS 9, but is used to manage identified risks, in the same category as the income and expenses affected by the risks that the derivative is used to manage. However, if doing so would require the grossing up of gains or losses or involve undue cost or effort, the entity is instead required to classify all gains or losses on the derivative in the operating category.

Paragraph B74 of IFRS 18 states '...grossing up of gains and losses might arise from situations in which:

- a. an entity uses financial instruments to manage the risks of a group of items with offsetting risk positions...; and

- b. the risks managed affect line items in more than one category of the statement of profit or loss’.

Paragraph B75 of IFRS 18 provides an example in which grossing up of gains or losses on a derivative might arise.

Applying the requirements

The Committee considered the application of the requirements only to gains or losses on the external derivative, not on the internal derivatives. That is because:

- a. the request asked about the classification of gains and losses on the external derivative in the entity’s consolidated statement of profit or loss.
- b. as paragraph BC6.144 of the Basis for Conclusions on IFRS 9 explains, for financial reporting purposes, the mitigation or transformation of risk is generally only relevant if it results in a transfer of risk to a party outside the reporting entity. Any transfer of risk within the reporting entity does not change the risk exposure from the perspective of that reporting entity as a whole. This is consistent with the principles of consolidated financial statements.

The Committee observed that, based on the application guidance in paragraphs B70–B76 of IFRS 18, an entity first needs to identify the risk(s) a derivative is used to manage. Doing so enables the entity to determine the categories in profit or loss that are affected by that risk and the resulting classification of gains or losses on that derivative.

The risks the external derivative is used to manage

The Committee observed that, entities typically enter into derivatives used to manage identified risks in accordance with their approved risk management policies. Therefore, an entity is generally expected to be able to identify the risk managed using a derivative based on facts and circumstances and its risk management policy.

In the fact pattern described in the request, consistent with the group’s risk management policy, the external derivative is used to manage only the foreign currency risk of the net liability exposure— not the gross exposures (the investing asset and the financing liability).

The categories affected by the risk managed using the external derivative

In the fact pattern described in the request, Parent P classifies foreign exchange differences on financial liabilities in the financing category of its consolidated statement of profit or loss.

Because the external derivative is used to manage foreign currency risk of the net *liability* exposure, applying paragraph B72 of IFRS 18, Parent P is required to classify any gain or loss on the external derivative in the financing category of its consolidated statement of profit or loss, unless doing so would require the grossing up of gains and losses or involve undue cost or effort.

In the fact pattern described in the request, Parent P assessed that the undue cost or effort exemption is not applicable.

Does classification in the financing category require grossing up gains or losses on the external derivative

Based on the requirements in paragraphs B74–B75 of IFRS 18, the Committee observed that the grossing up of gains and losses on a derivative:

- a. does not arise in situations in which an entity manages an identified risk which affects line items in a single category of the statement of profit or loss.
- b. might arise in situations in which an entity manages the risks of a group of items with offsetting risk positions using a derivative and those risks affect line items in more than one category of the statement of profit or loss. That is because, to classify the gain or loss on the derivative in each of the categories affected, the entity would need to present in each category a larger gain or loss than occurred on the derivative. Such an outcome is prohibited by paragraphs B70 and B72 of IFRS 18. For example, if the group's risk management policy was to instead use the external derivative to manage the foreign currency risk of both the investing asset and the financing liability on a gross basis. These risks would affect line items in the investing category and in the financing category of the consolidated statement of profit or loss. Consequently, classifying gains or losses on the external derivative in these categories would have required the grossing up of gains or losses on the derivative, which is prohibited by paragraph B72 of IFRS 18.

The Committee observed that, in the fact pattern described in the request, the external derivative is used to manage only the net liability foreign currency exposure, which affects a single category of the consolidated statement of profit or loss—the financing category. Therefore, classifying gains or losses on the external derivative in the financing category would not require the grossing up of such gains or losses. As a result, the prohibition in paragraph B72 of IFRS 18 would not apply.

Consequently, the Committee concluded that the entity is required to classify any gain or loss on the external derivative in the same category as the income and expenses affected by the risks the derivative is used to manage—in the fact pattern described in the request, in the financing category of its consolidated statement of profit or loss.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for the classification of gains or losses on a derivative—in accordance with an entity’s risk management policy—that is used to manage an identified risk but is not designated as a hedging instrument applying IFRS 9. Consequently, the Committee decided not to add a standard-setting project to the work plan.