
IFRS® Interpretations Committee meeting

Date	March 2026
Project	Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)
Topic	Updated suggested wording of the agenda decision
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Purpose of the paper

1. This addendum to Agenda Paper 2 sets out updated suggested wording of the agenda decision to reflect the discussions at the Committee's meeting on 17 March 2026.
2. For ease of reading, this paper includes a clean version of the suggested agenda decision included in Appendix A of Agenda Paper 2. Changes to that suggested agenda decision are marked as tracked changes in this agenda paper—that is, new text is underlined and deleted text is struck through.

[Updated] Suggested wording of the 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 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, unless doing so would involve undue cost or effort (see paragraph B68)’.

The request asked how an entity applying paragraph B65 of IFRS 18 classifies a foreign exchange difference if 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 enters into a loan with its subsidiary (intragroup loan). The entity and its subsidiary have different functional currencies. This intragroup loan:

- a. is denominated in the functional currency of either the entity or its subsidiary; and
- b. is not part of the entity’s net investment in the subsidiary.

The entity or the subsidiary for which the intragroup loan is a foreign currency monetary item applies IAS 21 to translate the loan to its functional currency and recognises any resulting exchange difference in profit or loss (the exchange difference). In preparing its consolidated financial statements applying IFRS 10 *Consolidated Financial Statements*, the entity 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 entity does

not eliminate ~~recognises the exchange difference on the loan in profit or loss and~~
recognises it in the consolidated profit or loss.

Applying the requirements in IFRS Accounting Standards

To determine how an entity classifies the exchange difference applying paragraph B65 of IFRS 18, the Committee considered what ‘...the items that gave rise to the foreign exchange differences...’ are.

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...’.

The Committee observed that—according to paragraph 45 of IAS 21—it is the intragroup monetary liability (or asset) that gives rise to the exchange difference. The monetary item represents a commitment to convert one currency into another currency.

Consequently, the Committee concluded that a reasonable reading of paragraph B65 of IFRS 18 applied to the fact pattern described in the request results in two possible ways (described as View 1 and View 2 in this agenda decision) to classify the exchange difference.

View 1—Classify the exchange difference in the operating category as the default category

The entity might consider that either:

- a. the income and expenses arising from the intragroup loan—the item that gave rise to the exchange difference—have been eliminated on consolidation and consequently are not included in the consolidated statement of profit or loss; or
- b. the commitment to convert one currency into another—which is what the monetary item that gave rise to the exchange difference represents—is not recognised in the consolidated financial statements and does not give rise to any income and expenses.

~~The income and expenses arising from the intragroup loan have been eliminated on consolidation and consequently are not presented in the consolidated statement of profit or loss. Consequently, the~~ The entity could reasonably conclude it cannot apply paragraph B65 of IFRS 18 to this exchange difference because there are no income and expenses included in the consolidated statement of profit or loss whose classification the exchange difference can follow ~~is no ‘same’ category within which the entity can classify the exchange difference.~~ The entity therefore, by default, classifies the exchange difference in the operating category in accordance with paragraph 52 of IFRS 18.

View 2—Classify the exchange difference in the same category in which the income and expenses from the intragroup loan would have been classified before their elimination on consolidation, or, if doing so would involve undue cost or effort, in the operating category

~~The entity might consider that According to paragraph 45 of IAS 21,~~ the exchange difference arose from the intragroup loan before the elimination of that loan—and any income and expenses (other than the exchange difference) arising from that loan—on consolidation.

The Committee observed that paragraph B65 of IFRS 18 does not require that the income and expenses from the eliminated monetary liability (or asset) be included ~~presented~~ in the consolidated statement of profit or loss ~~in order~~ for the exchange difference to ‘follow’ their same classification.

Therefore, applying paragraph B65 of IFRS 18, the entity could reasonably classify the exchange difference in the category in which the income and expenses from the intragroup loan would have been classified before the elimination of those income and expenses.

The Committee observed that applying Applying-View 2:

- a. the an-entity classifies the exchange difference from its perspective—that is, in the category in which the entity, as a consolidated group, classifies the exchange difference would have classified the income and expenses from the intragroup loan before their elimination on consolidation. This classification might differ from the category in which the subsidiary classified the exchange difference in its financial statements (if applicable to the subsidiary).
- b. if the entity determines—in accordance with paragraph B68 of IFRS 18—that classifying the exchange difference in the same category in which the income and expenses would have been classified before their elimination involves undue cost or effort, the entity instead classifies the exchange difference in the operating category. In accordance with paragraph B68 of IFRS 18, an entity assesses whether classifying foreign exchange differences involves undue cost or effort ‘for each item that gives rise to foreign exchange differences.’

Other views

~~Having observed that it is the intragroup monetary liability (or asset) that gives rise to the exchange difference, the Committee observed that it would be inappropriate for an entity—when applying paragraph B65 of IFRS 18—to consider an item other than the intragroup monetary liability (or asset) as ‘...the items that gave rise to the foreign exchange differences...’. Consequently, the~~ The Committee concluded that the other views described in the request would not be reasonable readings of the requirements. Those views were that the entity classifies the exchange difference:

- a. ~~in the financing category because, for the entity,~~ the transaction in the fact pattern involves only the raising of finance and, therefore, the entity classifies the exchange

difference in the financing category. The Committee concluded that this view is not a reasonable reading of the requirements because the exchange difference does not always arise from a transaction that involves only the raising of (intragroup) finance.

- b. ~~in the investing category because, for the entity,~~ the exchange difference arose from the transfer of cash from one currency into another for a period of time and, therefore, the entity classifies the exchange difference in the investing category. The Committee concluded that this view is not a reasonable reading of the requirements because it is ~~the intragroup monetary liability (or asset), and not cash (or currency),~~ that gives rise to the exchange difference.

Other observations

The Committee observed that an entity develops and applies an accounting policy—that is, View 1 or View 2 as described in this agenda decision—in accordance with paragraph 13 of IAS 8 Basis of Preparation of Financial Statements, ~~an entity would apply its reading of the requirements—that is, View 1 or View 2 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 item have been eliminated on consolidation).~~

Conclusion

In the light of its analysis, the Committee considered whether to add a standard-setting project to the work plan. The Committee was of the view that the expected benefits of a standard-setting project to further clarify the classification of the exchange difference in the fact pattern described in the request would not outweigh the costs. Consequently, the Committee decided not to add a standard-setting project to the work plan.