
IFRS[®] Interpretations Committee meeting

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

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Introduction

1. At its November 2025 meeting, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) about how an entity applies IFRS 18 *Presentation and Disclosure in Financial Statements* to classify any gain or loss 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*.
2. The objective of this paper is:
 - (a) to summarise and analyse comments on the tentative agenda decision; and
 - (b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure of the paper

3. This paper includes:
 - (a) [background](#) (paragraphs 5–14);
 - (b) [comment letter summary](#) (paragraphs 15–18);

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- (c) [staff analysis](#) (paragraphs 19–43);
 - (d) [staff recommendation](#) (paragraph 44); and
 - (e) [questions for the Committee](#).
4. There are two appendices to this paper:
- (a) [Appendix A—proposed wording of the agenda decision](#); and
 - (b) [Appendix B—analysis of other comments](#).

Background

5. In the fact pattern described in the submission, 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 a foreign currency (FC):
- (a) Subsidiary A issued a loan to a third party of FC100 (investing asset); and
 - (b) Subsidiary B obtained a loan from a different third party of FC120 (financing liability).
6. Therefore, the group has a net liability exposure of FC20.
7. 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 foreign exchange differences in the same category as the interest income and interest expense from those financial instruments.

8. 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).
9. 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 that make up the net exposure.
10. Parent P does not designate the external derivative in a hedging relationship applying IFRS 9.
11. 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.
12. 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.
13. As explained in [Appendix A](#) to this paper, 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.
14. 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.

Comment letter summary

15. We received 20 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our [website](#)¹. This paper includes analysis of only the comment letters received by the comment letter deadline.
16. Of the 20 respondents:
- (a) nineteen respondents agree 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 agrees with the tentative decision not to add a standard-setting project to the work plan but disagrees with the Committee’s analysis of the applicable requirements. Paragraphs 21–29 summarise and analyse the respondent’s reasons for disagreement
17. 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.
18. Further details about these matters, together with our analysis, are presented below.

Staff analysis

19. This section analyses:
- (a) [disagreement with the Committee’s analysis](#) (paragraphs 21–29);
 - (b) [suggestion to consider another fact pattern](#) (paragraphs 30–36); and
 - (c) [requests to clarify the application guidance in IFRS 18](#) (paragraphs 37–43).
20. [Appendix B](#) analyses all other comments. We recommend no action as a result of our analysis on those comments.

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

Disagreement with the Committee's analysis***Respondent's comments***

21. One respondent—the Accounting Standards Board for Japan (ASBJ)—says, while they agree with the Committee's tentative decision not to add a standard-setting project to the work plan, they disagree with the Committee's analysis. They say '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'.
22. They note Parent P, for purposes of its consolidated financial statements, has no specified main business activity, and accordingly, gains and losses on the external derivative are classified in the financing category. They say that if Treasury Entity had a specified main business activity which would result in Treasury Entity classifying the gain on loss on the derivative in the operating category, Parent P should be permitted to retain the classification used by Treasury Entity in its financial statements.
23. ASBJ acknowledges paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets or providing financing to customers is a main business activity for the *reporting entity* as a whole. However, they disagree with the IASB's cost-benefit analysis in developing this requirement, noted in paragraph BC98 of the Basis for Conclusions on IFRS 18.
24. Paragraph BC98 of the Basis for Conclusions on IFRS 18 says '...the IASB decided that classification differences between the group and its subsidiary (when they occur) appropriately reflect the differences between their main business activities. The IASB concluded that appropriately reflecting the main business activities of each reporting entity outweighs the costs an entity might incur to make consolidation adjustments.'
25. In the ASBJ's view, this cost-benefit analysis might not hold in all circumstances. In particular, in cases in which the parent entity assesses that it does not have a specified

main business activity, the costs to make consolidation adjustments might exceed the benefits from the resulting information. In their view, in such cases, entities should be permitted to retain the classification based on a subsidiary's main business activities in the parent's consolidated statement of profit or loss.

Staff analysis

26. We continue to agree with the Committee's analysis and conclusions in the tentative agenda decision and recommend no action in response to the respondent's comments.
27. Paragraph B37 of IFRS 18 requires an entity to assess whether investing in assets or providing financing to customers is a main business activity for the *reporting entity* as a whole. This paragraph states (emphasis added) 'the assessment of whether investing in assets or providing financing to customers is a main business activity by a reporting entity that is a consolidated group and a reporting entity that is one of the subsidiaries in the consolidated group could have *different outcomes*.'
28. The Committee was asked how an entity applies IFRS 18 to classify any gain or loss on a derivative financial instrument in its consolidated statement of profit or loss, in the fact pattern described in the request. Accordingly, the Committee's analysis focuses on the application of requirements in IFRS 18 to that fact pattern. The Committee was not asked to—nor is it the Committee's role to—analyse whether IFRS 18 should have required or permitted a different classification outcome.
29. Furthermore, we note paragraph B72 of IFRS 18 already includes an exemption for undue cost or effort. In particular, if classifying gains and losses on a derivative used for risk management in the same category as the income and expenses affected by the risks the derivative is used to manage involves undue cost or effort, the entity is required to instead classify all such gains and losses on the derivative in the operating category. Therefore, applying IFRS 18, classification of gains and losses on derivatives used for risk management need not involve undue costs or efforts.

Suggestion to consider another fact pattern***Respondent's comments***

30. A few respondents suggest that the agenda decision includes an analysis about how IFRS 18 would apply in a fact pattern in which an entity uses a derivative to manage the foreign currency risk of a net asset, rather than a net liability, exposure.
31. These respondents acknowledge that, in the fact pattern described in the request, the external derivative is used to manage a net liability exposure. However, they say in other reporting periods, the entity's net foreign currency exposure might shift to a net asset exposure, due to factors such as seasonal cash flows, internal financing adjustments, or debt refinancing arrangements.
32. These respondents say, applying IFRS 18 and the Committee's analysis and conclusions set out in the agenda decision, the entity might be required to change the category in which it classifies gains and losses on the derivative managing the identified risk exposure depending on whether the foreign currency exposure is a net liability or a net asset exposure.
33. Two respondents say it might be operationally costly for entities to apply IFRS 18 in circumstances in which derivatives are used for dynamic risk management. This is because of the need to frequently track and determine classification of gains and losses for derivatives that manage changing net exposures.
34. ASBJ says, from a conceptual perspective, reclassifying gains and losses of derivatives between categories might not provide useful information to users of financial statements (investors). For example, if a derivative manages the foreign currency risk of an exposure that is usually a net liability but occasionally shifts to a net asset exposure, they say such an arrangement is financing in nature. They say the gains and losses on the derivative should remain in the financing category and changing classification (such as from the financing to the investing category) does not provide useful information.

Staff analysis

35. We continue to agree with the Committee’s analysis and conclusions in the tentative agenda decision and recommend no action in response to the respondents’ comments. The suggestion in paragraph 30 goes beyond the fact pattern described, and the question asked, in the request to the Committee.
36. In addition, we note:
- (a) paragraphs B70–B76 of IFRS 18 require an entity to identify the risk(s) a derivative is used to manage. Doing so enables the entity to determine the categories in profit or loss affected by that risk and the resulting classification of gains or losses on that derivative. If the identified risk changes—for example, from a net liability to a net asset foreign currency exposure—the derivative(s) used to manage such risk may also change, which would affect how gains and losses from those derivatives are classified.
 - (b) determining the classification of gains and losses of derivatives, including those used for dynamic risk management, might involve increased costs and efforts. However, as paragraph 29 notes, IFRS 18 already includes an exemption for situations in which the classification of these gains and losses involves undue cost or effort.
 - (c) classifying gains and losses of derivatives in the category that is affected by the managed risk in a particular reporting period, in our view, provides useful information. We think the respondent’s alternative—requiring entities to classify gains and losses of a derivative in the category that is *usually* affected by the managed risk—could create application challenges, lead to inconsistent practices due to inherent subjectivity, and ultimately make the information less useful.

Requests to clarify the application guidance in IFRS 18*Respondent's comments*

37. A few respondents—who agree with the Committee's tentative decision not to add a standard-setting project to the work plan—say paragraph B75 of IFRS 18 is unclear. In particular, they said that the situations in which grossing up of gains and losses on a derivative used for risk management might arise, as illustrated in the example in paragraph B75 of IFRS 18, should be clarified further.
38. These respondents say it is unclear:
- (a) why, in paragraph B75 of IFRS 18, classifying derivative gains and losses in the category affected by the managed risk results in a gross up of derivative gains and losses, while in the fact pattern described in the request it does not. In their view, the substance of the entity's risk management activities in both situations appears to be similar. Two respondents say the agenda decision should explain the difference between the fact pattern in the request and the fact pattern described in paragraph B75 of IFRS 18.
 - (b) how an entity determines whether a derivative is used to manage a gross or a net exposure. The Accounting Standards Committee of Germany (ASCG) says, in practice, entities typically manage a net exposure. Therefore, in their view, the fact pattern analysed by the Committee would represent a more common example, and say the fact pattern analysed by the Committee should be illustrated in IFRS 18.
39. Furthermore, the Saudi Organization for Chartered and Professional Accountants (SOCPA) suggests including an example in the agenda decision illustrating the relationship between identifying the risk the derivative is used to manage (by reference to the entity's risk management objective) and the resulting classification applying paragraphs B72–B75 of IFRS 18, for a derivative that is not designated as a hedging instrument applying IFRS 9.

Staff analysis

40. We continue to agree with the Committee’s analysis and conclusions in the tentative agenda decision and recommend no action in response to the respondents’ comments.
41. We think amending IFRS 18, as suggested by the respondents, is not required. In particular, as concluded by the Committee at its November 2025 meeting and noted in the tentative agenda decision, IFRS Accounting Standards provide an adequate basis for an entity to determine the appropriate accounting in the fact pattern considered by the Committee. Based on our analysis in this paper, we continue to agree with this conclusion. We note therefore, that the criterion in paragraph 5.16(b) of the [IFRS Foundation’s Due Process Handbook](#) for the Committee to recommend adding a standard-setting project to the work plan is not met.²
42. We note that the fact pattern discussed in the agenda decision is different to the fact pattern discussed in paragraph B75 of IFRS 18. In particular:
- (a) in the fact pattern discussed in the agenda decision, the derivative is used to manage a *single exposure*—the foreign currency risk on the net liability exposure—which affects only *one category* of the statement of profit or loss. As a result, the entity need not present a larger gain or loss than occurred on the derivative. Therefore, the prohibition to gross up derivative’s gains and losses does not apply.
 - (b) in contrast, in the example in paragraph B75 of IFRS 18 a single derivative is used to manage *two* offsetting *exposures*—foreign currency risk on revenue (classified in the operating category) and on interest expenses (classified in the financing category). That is, *two categories* are affected by offsetting risks managed with one derivative. Consequently, the derivative’s gains or losses would need to be grossed up into offsetting gross amounts to be presented in

² 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 criteria in that paragraph are met. This includes the criterion in paragraph 5.16(b) which states ‘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.’

each of those categories individually. As a result, the entity would need to present in each category a larger gain or loss than occurred on the derivative. Therefore, the prohibition to gross up derivative's gains and losses applies.

- (c) to illustrate this difference, the agenda decision already includes an example of an alternative risk management policy in which the external derivative would be used to manage the foreign currency risk of both the investing asset and the financing liability on a gross basis.
43. We also recommend not adding an example, as suggested in paragraph 39. The fact pattern described in the request—and the Committee's analysis of that fact pattern as set out in the agenda decision—illustrates the relationship between the risk the derivative is used to manage and the resulting classification outcome applying IFRS 18.

Staff recommendation and questions for the Committee

44. Based on our analysis in paragraphs 21–43 and Appendix B to this paper, we recommend finalising the agenda decision, as published in [IFRIC Update September 2025](#), with no changes other than to remove the square brackets indicating the tentative stage of the agenda decision. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 44 of this paper?
2. Do Committee members have any comments on the wording of the agenda decision in Appendix A to this paper?
3. Do Committee members have additional observations they would like to report to the IASB regarding this matter?

Appendix A—Proposed wording of the agenda decision

We propose the following wording for the final agenda decision (deleted text is struck through).

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 asks 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 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 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 that ‘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 a 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.

Appendix B—Analysis of other comments

B1. The following table summarises respondents’ other comments together with our analysis and conclusions.

Respondents’ comments and suggestions	Staff analysis and conclusions
<p><i>1. Change description of the identified risk</i></p> <p>PwC suggests describing the identified risk as ‘remaining gross liability exposure’, instead of ‘net liability exposure’ to avoid confusion, due to its similarity with the ‘net position’ terminology which is used in IFRS 9.</p> <p>PwC says paragraph 6.6.1 of IFRS 9 refers to a ‘net position’ to describe hedging a group of items. It further notes that, in the fact pattern in the request, the entity is hedging FC20 of liability exposure, which represents a portion of the FC120 liability.</p>	<p><i>We recommend no change.</i></p> <p>We acknowledge the similarity between the phrases ‘net liability exposure’, used in the agenda decision, and ‘net position’, used in IFRS 9. However, we think ‘net liability exposure’ more accurately reflects the group’s risk management policy and management of the identified risk, as described in the request.</p> <p>According to the request, consistent with the group’s risk management policy, the purpose of the external derivative is to hedge the group’s net exposure to foreign currency risk.</p>
<p><i>2. Concern about application of IFRS 18 to complex fact patterns</i></p> <p>The ASCG agrees with the Committee’s conclusion and analysis for the fact pattern in the request. However, it expresses concerns about classifying gains and losses on derivatives that manage foreign currency risk in more complex fact patterns.</p>	<p><i>We recommend no change.</i></p> <p>The ASCG’s suggestion goes beyond the question asked in the submission.</p> <p>We note that IFRS 18 already includes an exemption for undue cost or effort, both for purposes of classification of gains and losses on derivatives used for risk management (see paragraph B72 of IFRS 18) and for classification of foreign</p>

Respondents' comments and suggestions	Staff analysis and conclusions
<p>To reduce complexity and mitigate costs, they suggest requiring an entity to classify income and expenses from complex group financing arrangements (including foreign exchange differences on intragroup loans, and gains and losses on derivatives to manage such foreign currency risk exposures) in a single category of the statement of profit or loss.</p>	<p>exchange differences (see paragraph B68 of IFRS 18). In both cases, classification in the operating category is required if the undue cost or effort exemption is met.</p>
<p><i>3. Reference to paragraph BC6.144 of the Basis for Conclusions on IFRS 9</i></p> <p>The agenda decision references paragraph BC6.144 of the Basis for Conclusions on IFRS 9 to explain why the Committee did not consider classification of gains and losses arising from internal derivatives in the fact pattern in the request.</p> <p>Avinash Chander suggests replacing this reference with paragraph 6.2.3 of IFRS 9, which requires that, for hedge accounting purposes, only contracts with a party external to the reporting entity can be designated as hedging instruments.</p>	<p><i>We recommend no change.</i></p> <p>Hedge accounting requirements in IFRS 9 are not applicable to the fact pattern in the request because Parent P did not designate a hedging relationship in accordance with this Standard.</p> <p>For this reason, we have deliberately cited paragraph BC6.144 of the Basis for Conclusions on IFRS 9, as it addresses financial reporting in general, rather than hedge accounting applying IFRS 9.</p>
<p><i>4. Remove a section of the agenda decision</i></p> <p>The agenda decision includes a section analysing whether the classification in the category affected by risk management</p>	<p><i>We recommend no change.</i></p> <p>Paragraph B72 of IFRS 18 requires an entity to classify gains and losses on a derivative used to manage identified risks, in the same category as the income and</p>

Respondents' comments and suggestions	Staff analysis and conclusions
<p>requires grossing up gains or losses on the external derivative.</p> <p>Avinash Chander suggests removing this section because, in their view, it is not relevant to the fact pattern in the request.</p>	<p>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.</p> <p>Accordingly, we think the agenda decision needs to analyse whether that is the case.</p>