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IFRS Interpretations Committee Chair
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RO n°35

Paris, 25 November 2025

Tentative Agenda Decision - Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)

Dear Chair,

The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IFRS Interpretations Committee (the Committee) to comment on the classification of a foreign exchange difference from an intragroup monetary liability (or asset) (IFRS 18) (Appendix A).

The submission to the Committee relates to the application of paragraph B65 of IFRS 18¹ to the classification of a foreign exchange gain or loss recognised in profit or loss in accordance with paragraph 45 of IAS 21², arising from intra-group loans and borrowings, whose assets, liabilities, income and expenses have been eliminated from the consolidated financial statements. The Committee considered two views.

View 1 notes that, after eliminating intragroup revenues and expenses, the foreign exchange gain or loss cannot be attributed to any remaining item in the consolidated financial statements and should be classified by default in the operating category in accordance with paragraph 52 of IFRS 18³.

View 2 observes that the foreign exchange gain or loss results from the application of paragraph 45 of IAS 21 to intragroup loans and borrowings before their elimination, which should lead to their inclusion in the category in which intragroup income and expenses were classified before their elimination, or, if this allocation involves undue costs or efforts, to the operating category in accordance with the default approach in paragraph 52 of IFRS 18.

After excluding three other views⁴, seven members of the Committee considered that only View 1 is a reasonable reading of paragraph B65 of IFRS 18, while seven other members considered that both views are reasonable readings of the requirements in the Standard. The Committee did not propose to add a standard-setting project to the work plan.

¹ IFRS 18, paragraph B65. "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)."

² IAS 21, paragraph 45. "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 or, if it arises from the circumstances described in paragraph 32, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation."

³ IFRS 18, paragraph 52. "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 (see paragraph B42): (a) the investing category; (b) the financing category; (c) the income taxes category; or (d) the discontinued operations category."

⁴ Classification in financing, classification in investing and development of an accounting policy by the entity.

The ANC agrees that both View I and View II are reasonable readings of paragraph B65 of IFRS 18, but is concerned by the limits of both views in terms of relevance.

View 1 may result in an irrelevant presentation of the operating category, as it does not consider either the underlying transactions or the group's organisation. For instance, a group with a central financing structure that borrows funds in different currencies in order to provide internal financing to the subsidiaries would classify the foreign exchange gains or losses relating to the intragroup loans in the operating category, whereas they relate to the financing of foreign subsidiaries. Furthermore, in order to avoid obscuring the operating category with foreign exchange gains or losses from other categories, some of our stakeholders are contemplating the use of new MPMs that would exclude such foreign exchange gains or losses if their classification within the operating category is confirmed. The ANC considers that the use of an MPM to avoid the consequence of an accounting requirement is an indicator that such requirement may fail to provide relevant information.

Although View 2 considers the underlying transaction, the clarity of its outcome could be obscured by the allocation to different categories of foreign exchange gains or losses generated by several layers of intragroup loans and borrowings. For instance, a group with a central financing structure that collects cash from foreign subsidiaries to lend it to other subsidiaries would classify foreign exchange gains or losses in financing on the collecting side, and opposite foreign exchange gains or losses in investing on the lending side, whereas its business model is to manage group currency positions on a net basis. The ANC considers that although less inadequate than View 1, View 2 fails to represent the parent entity and its subsidiaries as a single economic entity in a meaningful way, as it allows classifications from separate financial statements to remain in the consolidated financial statements.

Among the principles and requirements that guide the classification of income and expenses in the categories of the statement of profit or loss, IFRS 18 classifies an ancillary item in the same category as the principal item to which it relates⁵. This principle reaches its limits where the ancillary item cannot be linked to a recognised principal item, for example for foreign exchange gains or losses generated by intra-group loans and borrowings eliminated on consolidation. Beyond the situation referred to in the submission, the limitations of this principle appear in other prevalent fact patterns, such as non-utilisation fees charged by a financial institution for an undrawn line of credit. In the absence of a recognised main item, classifying such fees in the operating category by default would contradict the classification of the underlying transaction as financing.

The ANC recommends opening a narrow-scope standard-setting project to the work plan to clarify how the IFRS 18 principle of linking an ancillary item to a principal item applies in the absence of an asset, liability, income or expense recognised for the principal item.

However, if the Committee decides not to add a standard-setting project to the work plan, the ANC strongly recommends that the Agenda Decision be modified to accept different views to be applied in addition to View 1 and View 2, and to allow for an accounting policy choice to be applied by types of homogeneous transactions.

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

ANC Chair

⁵ IFRS 18 applies this principle in particular to the classification of foreign exchange gains and losses (paragraphs B65-B66), the impact on profit or loss of derivatives used to manage an identified risk (paragraphs B70-B75) and the effects of hyperinflation (paragraph B69).

Appendix A
Tentative Agenda Decision (September 2025)
Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)

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 (...)”.

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:

- . is denominated in the functional currency of either the entity or its subsidiary; and
- . 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 recognises the exchange difference on the loan in profit or loss.

Views

View I - Classify the exchange difference in the operating category as the default category in accordance with paragraph 52 of IFRS 18

The income and expenses arising from the intragroup loan have been eliminated on consolidation and are not presented in the consolidated statement of profit or loss. Consequently, there is no “same” category within which the entity can classify the exchange difference in accordance with paragraph B65 of IFRS 18. The entity therefore, by default, classifies the exchange difference in the operating category in accordance with paragraph 52 of IFRS 18.

View II - 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

According to paragraph 45 of IAS 21, the exchange difference arose from the intragroup loan before the elimination of that loan - and the elimination of any income and expenses arising from that loan - on consolidation. Therefore, applying paragraph B65 of IFRS 18, the entity classifies the exchange difference using the category in which the income and expenses from the intragroup loan would have been classified before the elimination of those income and expenses. If the entity determines that classifying the exchange difference in this way would involve undue cost or effort, it instead classifies the exchange difference in the operating category.

The request included three other views. Under those views, in its consolidated financial statements the entity:

- . classifies the exchange difference in the financing category because, for the entity, the transactions in the fact pattern involve only the raising of finance;
- . classifies the exchange difference 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; or
- . develops an accounting policy based on any of the views included in the request because IFRS 18 is not clear about how the exchange difference should be classified.

Applying the requirements in IFRS Accounting Standards

Seven Committee members concluded that View I (as described in this [draft] agenda decision) is the only reasonable reading of paragraph B65 of IFRS 18. The other seven Committee members concluded that both View I and View II (as described in this [draft] agenda decision) are reasonable readings of paragraph B65 of IFRS 18.

The Committee concluded that the three other views included in the request (as described in this [draft] agenda decision) are not reasonable readings of paragraph B65 of IFRS 18.

Conclusion

Notwithstanding the different views of its members, the Committee [decided] not to add a standard-setting project to the work plan.

The deadline for commenting on the tentative agenda decision is 25 November 2025. The Committee will consider all comments received in writing by that date; agenda papers analysing comments received will include analysis only of comments received by that date.