

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

25 November 2025

Dear Sir

Tentative IFRS Interpretations Committee Agenda Decision: Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (IFRS 18)

We are pleased to comment on the above noted IFRS Interpretation Committee's tentative agenda decision. Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the tentative agenda decision.

Foreign exchange differences arising from intragroup monetary liabilities, as described in the submission, are common in corporate groups with international operations, therefore, we appreciate the IFRS Interpretation Committee (the Committee) considering this matter. However, we recommend that the Committee reconsider the matter with a goal of reaching consensus, as the agenda decision as currently worded does not reach a conclusion. As this matter is common and, in some cases, material, stakeholders need certainty about how the requirements of IFRS 18 may be applied.

In our view, both view I and view II as set out in the tentative agenda decision are technically supportable conclusions, however, the application of view II may result in additional application questions. The reason for our view is set out below.

View I

To classify the foreign exchange differences in the financing category, the income and expenses must relate to a liability recognised in the financial statements of the reporting entity. As the intragroup loan receivable and payable are eliminated in accordance with IFRS 10, they do not exist and therefore cannot be classified as items that relate to a liability that arises from transactions that involve only the raising of finance or an 'other' type liability (IFRS 18.59). Therefore, the default category in IFRS 18 applies and the income and expenses must be classified in the operating category (IFRS 18.52).

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View II

In contrast to view I, it should be considered that this matter does not appear to have been considered by the IASB when they were drafting and deliberating on the requirements of IFRS 18, as this is the only type of income or expense that cannot be related to assets and/or liabilities recognised in the financial statements of the reporting entity. Therefore, we do not believe that it is the intention of the IASB to require foreign exchange differences to affect operating profit when they relate to long-term intragroup financing.

However, it should be noted that view II may result in additional application questions. For example:

1. If both entities in a consolidated group recognise foreign exchange differences on the same loan, this could give rise to foreign exchange differences being recognised in two different categories: investing for the lender and financing for the borrower. For example, if Parent A has a functional currency of Euros and Subsidiary B has a functional currency of Japanese Yen, a loan between A and B denominated in US dollars would result in foreign exchange differences being recognised for both entities, which would survive the elimination of those balances. This 'grossing up' of foreign exchange differences may require additional considerations beyond those contemplated in view II.
2. Receivables and payables between entities in a consolidated group may be short-term or long-term in nature depending on the facts and circumstances, for example, trade receivable and payable balances arising from intragroup sales vs. intragroup loans. Exchange differences arising from short-term financing, such as accounts receivable and accounts payable, may be difficult to differentiate from exchange differences that arise from long-term financing. In our view, this differentiation may be important because exchange differences arising from short-term financing would be most appropriately classified in the operating category, whereas other exchange differences may be more appropriately classified in other categories. This challenge may be addressed by the 'undue cost or effort' exception in IFRS 18.B68, however, we believe this should be considered when the Committee and/or the IASB address this issue.

Conclusion

We recommend that the Committee consider this analysis and reconsider whether members can object to either approach as set out above. The agenda decision as currently drafted may not be useful to stakeholders as it will not reduce diversity in practice, as the Committee has yet to conclude on how the requirements of IFRS 18 apply to this fact pattern. Additionally, the agenda decision as currently drafted does not explain the rationale for the rejection of the other three potential views included in the original submission to the Committee. If the Committee is able to reach a conclusion on the requirements of IFRS 18, it would be beneficial to explain the rationale for why these views are not supportable.

If the Committee is unable to reach a conclusion after deliberating on feedback received to the tentative agenda decision, we recommend that the IASB explore fast-tracked narrow-scope

standard setting to IFRS 18 to clarify the requirements. We believe this could be completed quickly since we believe these types of foreign exchange differences are unique, and therefore, new requirements being added to IFRS 18 could clarify how they should be classified with limited risk of unintended consequences to other types of transactions. As noted earlier in this letter, these types of foreign exchange differences are common, and stakeholders need requirements that are capable of being consistently applied.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

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