



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale

L'Afep



The IFRS Interpretations Committee,

30 Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD-United Kingdom

12 November 2025

Dear M Mackenzie,

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

We welcome the opportunity offered by the IFRS Interpretations Committee to comment on its Tentative Agenda Decision (TAD) on the Classification of a Foreign Exchange (FX) Difference arising from an Intragroup (IG) Monetary Liability (or Asset) (IFRS 18).

First, we confirm that this issue is prevalent, and the amounts involved can be large. We therefore call for a standard-setting response to be provided before the standard comes into effect.

We acknowledge that the IASB has decided to make Operating Income a default category, but this requires as a corollary a very strict comprehensive and relevant definition of the items that can be presented in the Investing and Financing categories, without which there is a risk of undermining the relevance of Operating Income.

We understand that the difficulty encountered by the Committee is the absence of underlying income/expenses recognized in the income statement. The Committee attempted to explore IFRS 10 and the conceptual framework in order to conclude that these items were not eliminated/non-existent but merely offset. We believe that this reasoning is far-fetched and could have unintended consequences on other transactions.

Furthermore, we have observed other cases where the principle of IFRS 18 of attaching incidental income/expenses to the main items also raise difficulties. These include, for example, fees on unused credit facilities. Since no principal element is recognized, the question

of whether to present this in the operating profit arises, even though there is consensus that the outcome would not be relevant.

We therefore believe that the general principle of IFRS 18 of consistent classification between the incidental and the underlying component is strained when there is no underlying component and that the conclusion that systematic classification under Operating Income by default is not relevant in such situations.

In these cases, we believe that companies should use their judgement, based on the economic nature and purpose of the original transaction, as it is already provided for currency exchange differences in paragraph IFRS 18.B67: “In such cases, subject to paragraph B68, an entity shall use its judgement to determine whether the foreign exchange difference relates to the amount classified in the financing category—and classify it in that category—or whether it relates to the amount classified in another category—and classify it in that category. An entity shall not allocate between categories a foreign exchange difference arising on a liability from a transaction that does not involve only the raising of finance.” We think that this principle is sound.

Furthermore, the default presentation in the operating result is specified only in the following cases:

- The cost or effort to classify foreign exchange differences in the same category as the income and expenses from the items that gave rise to the foreign exchange differences would be unduly high; or
- There is need to perform a grossing-up exercise in the case of hedging transactions.

Neither of these situations applies to intragroup loans, as acknowledged by the Committee when it proposes to refer to the category which would have been used if the intragroup loan had not been eliminated – e.g. Investing/Financing categories.

Furthermore, a presentation within the operating category would certainly be the worst option, as the underlying transactions are clearly not related to any operational transactions; Intragroup financing is economically equivalent to internal entities’ substituting themselves for external lenders/borrowers.

Even though we concur with the Committee’s view that Investing and Financing categories are the most appropriate ones to present foreign exchange differences from IG loans, we strongly disagree with the solution proposed by the Committee, as it would lead to:

- Irrelevant impacts at the consolidated level, by presenting currency effects on similar transactions (internal financing) in two different categories depending on the currency selected. Indeed, the foreign exchange effect of economically similar transactions (intragroup financing) would be presented within two different categories (Investing and Financing categories), depending on the treasury position of each subsidiary (which may evolve over the financial year, because of seasonality), implying that, for a same subsidiary, depending on the time of year, and on its treasury position, the foreign exchange difference of the intragroup loan could switch from Investing to Financing, thus generating irrelevant volatility and making the financial statements particularly difficult to understand.

- Undue complexity, requiring to track into the consolidation reporting system the origin of the foreign exchange in order to assign it to one of the two categories. Please note that this complexity can be exacerbated if we consider that the group can implement strategies to mitigate these foreign exchange effects, either by using them themselves as hedging instruments or by backing them with derivatives instruments.

We do not believe that this complexity should justify classification into the operating section, which, we would remind you, would be the least relevant presentation.

As a conclusion, we believe that the most appropriate approach, and indeed that which is implied by paragraph B67 of IFRS 18, is to use judgement to determine whether the exchange difference falls under the Financing or Investing category. Presentation under Operating would really be the least appropriate solution, as these transactions are clearly Financing operations.

If you require any further information on this subject, please do not hesitate to contact us.
Yours sincerely,

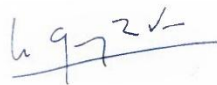
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