KPMG

IFRIC agenda decisions

Our series on the most topical issues in IFRS® Accounting Standards and financial reporting

24 September 2025

"These exchange differences can be big, volatile, unpredictable – so this question could have a material impact on your consolidated profit and loss account."

VIDEO TRANSCRIPT

IFRS 18 – exchange differences on intragroup loans

Brian O'Donovan
KPMG Global IFRS and Corporate Reporting Leader,
and IFRS Interpretations Committee member

Hello, I'm Brian O'Donovan. I'm the global IFRS and corporate reporting leader at KPMG, and I'm a member of the IFRS Interpretations Committee – the IFRIC.

In its September meeting, the Committee discussed how foreign exchange differences arising on intercompany loans should be classified in consolidated financial statements under IFRS 18. That's the new presentation and disclosure standard. Should they be operating, investing or financing?

Now, these exchange differences can be big, volatile, unpredictable. So this question could have a material impact on your consolidated profit and loss account

What's the issue?

The Committee was asked to consider a case in which a parent enters into a loan with its subsidiary. The parent and the subsidiary have different functional currencies, so at least one of them will have an exchange difference on retranslation of the loan.

Obviously, the loan itself will eliminate on consolidation, but the exchange difference won't. IAS 21 – the standard on foreign exchange – explains that this is because there is a commitment to convert one currency into another, and that exposes the group to currency fluctuations.

And this will be true for intragroup loans and for other intragroup transactions such as leases. The question is how to classify this exchange difference in consolidated profit and loss under IFRS 18.

What did the Committee discuss?

IFRS 18 says that exchange differences should be classified in the same category as the income and expense that gave rise to the difference. But what does that really mean in this case? Well, one view is that all these exchange differences should be classified as operating. The intragroup loan has been eliminated on consolidation, so there is no item of income and expense to which the exchange difference relates.

And IFRS 18 is clear that operating is the default category and it does not exclude volatile income or expense. Sounds straightforward, but that would be a change in practice for most companies. An alternative view is that these exchange differences should be classified in the same category in which the related income and expense would have been classified prior to elimination on consolidation.

If this would involve undue cost or effort, the exchange differences would be back in operating. This alternative approach would be more complex. I suspect that different Committee members had different views on exactly how to apply it in practice, but it does seem clear that, under this approach, each exchange difference would be assessed separately, and the outcome in a large group would be that some exchange differences would be operating, some investing, some financing.

The Committee also considered whether it would be reasonable to simply classify all exchange differences as investing, all exchange differences as financing, or permit a broad accounting policy choice. But no Committee members supported any of those three approaches.

A deadlocked vote

It's important to remember that the Committee has 14 (that's one-four) voting members. That's an even number. In a vote, seven Committee members said that classification as operating was the only reasonable reading of IFRS 18. The other seven Committee members thought there were two reasonable readings of IFRS 18: classify everything as operating; or apply the alternative approach.

In effect, all Committee members thought it was acceptable to classify all exchange differences on intercompany loans as operating in consolidated financial statements under IFRS 18.

But the Committee was deadlocked 50-50 on whether the alternative approach was also acceptable.

Next steps

The tentative agenda decision is in the **September IFRIC update**, open for comment until late November. It's less directional than usual due to the split vote on the alternative view. Take a look. Tell the Committee what you think.

Publication name: *IFRIC agenda decisions: IFRS 18 – exchange differences on intragroup loans*

Publication date: September 2025

kpmg.com/ifrs