

Stockholm 25 November 2025

FAR comments: Tentative Agenda Decision – Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (Asset) (IFRS 18 Presentation and Disclosure in Financial Statements)

FAR, the Institute for the Accountancy Profession in Sweden, is responding to IASB's invitation to comment on the *Tentative Agenda Decision (TAD) Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (Asset) (IFRS 18 Presentation and Disclosure in Financial Statements)*.

FAR can see the technical merits, based on IFRS 18.B65, of View I (classification of exchange differences in the operating category by default). FAR does not disapprove of View II (classification of exchange differences in the same category as gains and losses would have been classified before their elimination on consolidation) but finds that convincing technical arguments for this view are lacking in the TAD. More specifically, FAR looks for reasoning about 'reporting entity' and why it is appropriate to look to a situation before eliminations, when the reporting entity is the group and the presentation issue concerns consolidated financial statements.

At the same time, FAR is concerned that the proposed agenda decision will result in less relevant presentation of foreign exchange (FX) differences on intragroup loans and in information that does not give a faithful representation for the users of financial statements. Please find further elaboration of FAR's view below.

Perspectives of risk management

Risk management and economies of scale are compelling reasons for the centralised raising and subsequent allocation of financing within many larger Swedish entities. This requires the funds to be allocated as a consequence of the decision on how to achieve the most efficient capital structure within the entity.

These entities will often fund foreign operations by a mix of equity in the form of a receivable (or payable) that forms part of the net investment in that foreign operation, and financing that in essence caters for the short-term fluctuations in the foreign operation (intercompany loans). Risk management decisions often result in financing being transacted in the functional currency of the foreign operation rather than in the functional currency of the parent company or of a designated treasury entity. These different means of financing are part of overall financing considerations for the group and its companies. Decisions to finance subsidiaries within the group with either of the two forms of equity financing or intercompany loans constitute financing decisions that are made at the group level. These decisions are not operating decisions within the group's main business activities.

View I

FAR acknowledges that View I is a technically reasonable view given the lack of originating items in the consolidated financial statements. However, FAR believes that presenting FX differences on intercompany loans in the operating category will not result in a faithful representation of these transactions. The nature of FX gains and losses on intercompany loans is, as noted above, not usually an operating item. It is rather an effect of how the entity, including its subsidiaries, is financed.

The requirement to present a subtotal for profit or loss before financing and income taxes is developed by the IASB in BC148 as: “...because many users of financial statements seek to analyze an entity's performance independently of how the entity is financed.[...]”.

FAR also appreciates the reasoning in BC209: “... For example, an entity would provide an incomplete picture of the performance of its main business activities if it excluded from operating profit FX differences related to those activities.”

For reasons described above, FAR considers that including FX differences on intercompany loans in operating profit would likewise distort the picture of the entity's main business activities and at the same time provide an incomplete picture of finance income and expense.

View II

View II seems to be based on how the FX differences are classified in the separate financial statement of the legal entities. Hence, the FX differences recognised in the separate financial statements will be reflected in the group financial statements only by applying the consolidation approach, rather than considering the nature of such FX difference.

Further, the classification of FX differences in the financial statements in the legal entity would be based on these entity's specified main business activities. In the consolidated financial statements, the



Group is the reporting entity, not the separate legal entities. FAR believes that further clarification is needed on how differences in SMBAs should be dealt with when applying view II.

Further, application of View II could result in entities setting the currency structure of intercompany loans in a way that achieves a desired presentation. Also, see the note in the first part of this comment letter about motivating the view in view II on the general ‘reporting entity’ issue.

Final comments

FAR is of the view that FX differences on intragroup items should be based on the nature of such items, and that other requirements in IFRS 18 could be used as a fundamental principle. FAR believes that the decision behind the transactions could be a way forward as this concept is already part of the IFRS in terms of “financing decisions” and “purchasing decisions” for liabilities that involve financing and other activities as expressed in BC218(a) and (b). B67 and BC219 further explain that an entity uses judgement when determining how to classify FX differences on ‘other liabilities’. FAR understands that BC218-BC219 and B67 are not directly applicable to intragroup loans. However, FAR considers the guidance is relevant as a fundamental concept for how an entity shall classify its FX differences from intragroup loans.

By applying the guidance as in BC218-BC219 and B67 would require an entity to consider the nature of such FX differences, which FAR believes will lead to a more faithful representation. Therefore, FAR encourages IFRS IC to reconsider the conclusions of the tentative agenda decision. FAR would like to clarify that this is not a matter of avoiding volatility in the operating category, but rather a question of the faithful presentation of intercompany FX gains and losses.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Pernilla Lundqvist'.

Pernilla Lundqvist

Chairman FAR Accounting Practises Committee