25 November 2025

International Accounting Standards Board
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Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: *CLASSIFICATION OF A FOREIGN EXCHANGE DIFFERENCE FROM AN INTRAGROUP MONETARY LIABILITY (OR ASSET) (IFRS 18)*

In response to your request for comments on Tentative Agenda Decision: *Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Lead: Financial Reporting

Cc: Kedibone Sono
Head: Financial Reporting

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: *CLASSIFICATION OF A FOREIGN EXCHANGE DIFFERENCE FROM AN INTRAGROUP MONETARY LIABILITY (OR ASSET) (IFRS 18)*

Overview

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:

1. is denominated in the functional currency of either the entity or its subsidiary; and
2. 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:

1. classifies the exchange difference in the financing category because, for the entity, the transactions in the fact pattern involve only the raising of finance;
2. 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
3. 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.

SPECIFIC COMMENTS

In our view, while View 2 provides useful accounting information, we note that IFRS 18 does not offer explicit guidance on the treatment of foreign exchange gains and losses arising from inter-company borrowings. As a result, entities will need to exercise judgement when classifying these foreign exchange differences. Given the requirement for judgement, we believe it would be appropriate to allow an accounting policy choice, enabling entities to classify foreign exchange gains and losses either in accordance with the principles of View 2 or within the default operating category.