Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Berlin, 25 November 2025

Dear Bruce,

## IFRS IC's tentative agenda decisions in its September 2025 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the Tentative Agenda Decisions (TADs) taken by the IFRS Interpretations Committee (IFRS IC) as published in the September 2025 *IFRIC Update*. We appreciate the opportunity to comment on the IFRS IC's tentative agenda decisions.

As regards the tentative agenda decision on IFRS 16, we agree with the IFRS IC's view and the respective conclusions.

As regards the tentative agenda decision on IFRS 18, we disagree with the IFRS IC's view and the respective conclusions. We believe that the fact pattern assumed in the tentative agenda decision is too simplistic and disregards the economic rationale of such intragroup transactions. Focussing the technical analysis on an intragroup liability (or asset) alone, disregards the fact that those intragroup transactions are entered into as part of an external group financing transaction with the purpose of raising finance for the respective group entities.

Applying the tentative agenda decision to intragroup financing transactions would result in income and expenses from a comprehensive group financing transaction be unnecessarily scattered across different categories in the statement of profit or loss, although these transactions were ultimately entered into to raise finance for the subsidiaries. Therefore, we believe that neither View I nor View II reflect the economic substance of the underlying transactions. In our view, such transactions should be considered in their entirety considering the design, risks and purpose of those transactions when classifying foreign exchanges differences on intragroup loans in the statement of profit or loss. Consequently, we believe income and expenses from

a comprehensive group financing transactions (including foreign exchange differences on intragroup loans) should be classified in a single category of the statement of profit or loss. As group financing management practices may differ across entities, we believe that entities – as accounting policy choice – should be required to:

- present foreign exchange differences from intragroup loans in the operating category (i.e., View I as described in the tentative agenda decisions), or
- determine the appropriate (single) category in the statement of profit or loss by considering the economic substance of the underlying transaction as a whole (e.g., in the financing category when an intragroup loan was entered into as part of a group financing transaction that involves only the raising of finance).

We therefore recommend the IFRS IC revisit its tentative agenda decision and consider whether a presentation that reflects the economic substance of the underlying transactions as a whole (including an intragroup loan), can be achieved within the remit of the current requirements of IFRS 18.

We provide some more detailed comments in the Appendix to this cover letter.

If you would like to discuss our views further, please do not hesitate to contact Ilka Canitz (canitz@drsc.de) or me.

Yours sincerely,

*Sven Morich*

Vice President

**Appendix – Our detailed comments**

Tentative agenda decision "Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset) (IFRS 18)"

*Classification of foreign exchange differences from an intragroup loan in the (consolidated) statement of profit or loss*

We disagree with the IFRS IC's tentative agenda decision and the respective conclusions. We believe that the fact pattern assumed in the tentative agenda decision is too simplistic and ignores the economic rationale of such intragroup transactions. Focussing the technical analysis on an intragroup liability (or asset) in isolation, disregards the economic substance of such transactions which are often entered into as part of an external group financing transaction. While we acknowledge the technical analysis in the IFRS IC's tentative agenda decision, we note that applying the tentative agenda decision would result in income and expenses from a comprehensive group financing transaction being classified to different categories in the statement of profit and loss. Therefore, as explained in more detail below, we believe that neither View I nor View II appropriately reflect the effects of the underlying transactions.

In large multinational group, it is common practice to bundle financing activities in the group treasury function of the parent entity (or another legal entity within the group). This means that in connection with an intragroup loan, often an external financing is raised, which is then transferred to the group entities by entering an intragroup loan (e.g., group treasury raises an external loan in the functional currency of the group and subsequently enters into a loan with a subsidiary that has a different functional currency). Therefore, we believe that focusing the technical analysis solely on the intragroup asset (or liability) that gave rise to foreign exchange differences is too simplistic and thus not useful when considering complex group financing transactions in practice. Applying the tentative agenda decision to intragroup financing transactions would result in all income and expenses from an external loan be classified in the financing category, while the foreign exchange differences on the intragroup loan would be classified in the operating category (View I) or the financing/investing category (View II). This means that income and expenses from transactions which are ultimately entered into to raise finance for the subsidiaries would be unnecessarily scattered across different categories in the statement of profit or loss. In our view, however, presentation in the statement of profit or loss should reflect the economic substance of the underlying transaction and, in the case of a group financing transaction (that involves only the raising of finance) should result in a presentation of income and expenses in a single category of the statement of profit or loss (i.e., the financing category).

Furthermore, we note that group financing transactions are far more complex in practice and are managed internally using dedicated treasury systems. Thus, presentation of these complex transactions should not be narrowed to a single intragroup loan when classifying income and

expenses. For instance, outreach with preparers from our constituency revealed that the IFRS IC's tentative agenda decision has also an impact on the classification of income and expenses from similar intragroup transactions (such as foreign exchange differences on in-house cash, as well as gains and losses on derivatives used to manage identified risks, whereby the hedged item is an intragroup loan). However, applying the IFRS IC's tentative agenda decision to these transactions would also result in scattering income and expenses across different categories of the statement of profit or loss. As a result, a comprehensive group financing transaction that does not involve any foreign currency exposure from the group's perspective may be fragmented into several individual transactions, which results into presentation across different categories in the statement of profit or loss.

For the reasons above, we believe that the tentative agenda decision is not suited to capture the economic rationale of complex intragroup financing transactions. Rather we believe that such transactions should be considered in their entirety – considering the design, risks and purpose of those transactions – when classifying foreign exchanges differences on intragroup loans in the statement of profit or loss. As group financing management practices may differ across entities, we believe that entities – as accounting policy choice – should be required to:

- present foreign exchange differences from intragroup loans in the operating category (i.e., View I as described in the tentative agenda decisions), or
- determine the appropriate (single) category in the statement of profit or loss by considering the economic substance of the underlying transaction as a whole (e.g., in the financing category when an intragroup loan was entered into as part of a group financing transaction that involves only the raising of finance).

If the IFRS IC were to follow our recommendation, we believe that entities should disclose their selected accounting policy applying paragraphs 27A-27I of IAS 8 *Basis of Preparation of Financial Statements* (rev. 2024) if that information is material.

We therefore recommend the IFRS IC revisit its tentative agenda decision and consider whether a presentation that reflects the economic substance of the underlying transactions as a whole (including an intragroup loan), can be achieved within the remit of the current requirements of IFRS 18. Should the IFRS IC conclude that it cannot appropriately resolve this issue within the remit of the current requirements of IFRS 18, we suggest the IFRS IC consider recommending the IASB undertake a narrow-scope standard-setting project.

*Effects of the tentative agenda decision on IFRS 18 implementation projects in practice*

The ASCG has performed outreach in its constituency and has gathered feedback from preparers of financial statements on whether they agree with View I, or View II, or whether they

deem another approach more appropriate for classifying foreign exchange differences on intragroup loans in IFRS consolidated financial statements. Further, we have sought feedback on how these entities tentatively have implemented foreign currency translation for such intragroup loans in their systems (before the IFRS IC addressed this issue). The feedback obtained showed that there are different views in practice:

- Some entities either agreed with View I or considered it to be acceptable (i.e., classification in the operating category). Those entities that agreed with View I referred to that the foreign exchange differences arise from an internal transfer of funds within the group, which will ultimately be used to finance operating activities. However, some entities referred to that, if the (final) IFRS IC agenda decision would result into allowing entities to classify these foreign exchange differences in the financing category, they would consider this option (and adjust their processes and systems respectively). Furthermore, some entities noted that they would adjust for these foreign exchange differences and present an "adjusted operating profit or loss" in their note on management-defined performance measures.
- Some entities agreed with View II and are currently implementing their systems to reflect this view.
- Some entities rejected both View I and View II, as neither view corresponds to the way in which such intragroup transactions are managed internally in large multinational groups. According to these entities, neither View I nor View II results in a fair presentation.

Furthermore, preparers from our constituency referred to that the IFRS IC's tentative agenda decision also has an impact on other (intragroup) transactions. For instance, similar questions arise with regard to the classification of foreign exchange differences for in-house cash. Applying the tentative agenda decision to in-house cash balances, foreign exchange differences on in-house cash balances would be classified in the operating category (View I) or the financing/investing category (View II); while income and expenses from cash and cash equivalents of the group would be classified in the investing category. In addition, we have received feedback from preparers from our constituency that implementing View II in ERP systems (i.e., classifying foreign exchanges differences either in the investing or financing category depending on whether a subsidiary has an in-house cash credit or debit balance) is challenging (if not impracticable).

In addition, similar questions were raised with regard to the classification of gains and losses on derivatives that are used to manage identified risks in a group financing transaction; however, the hedged item is an intragroup loan. This can, for example, occur in practice when an entity raises a synthetic foreign currency financing by swapping local currency (e.g., by entering a forward contract). Applying the tentative agenda decision to such transactions would

again result in income and expenses being scattered across different categories in the statement of profit or loss while the economic substance of these transactions consists in obtaining finance for the group and its subsidiaries.

Lastly, preparers from our constituency were concerned as regards the IFRS IC's timeline. As a final agenda decision is not expected until the first quarter of 2026, the outcome of the IFRS IC's discussions cannot be awaited in the context of ongoing implementation projects. Due to retrospective application of IFRS 18, entities affected must have their accounting systems and processes ready by the end of 2025 in order to generate comparative information. From the perspective of preparers of financial statements, a timely final decision by the IFRS IC would therefore be desirable, as they may have to adapt their current implementation of IFRS 18 in their systems and processes (depending on the outcome of the IFRS IC's further deliberations).

*Tied vote of the Committee members*

We note that the Committee members were unable to reach consensus on whether both View I and View II (as described in the tentative agenda decisions) are reasonable readings of the requirements of IFRS 18 or whether View I is the only reasonable reading of the requirements of IFRS 18. However, even though the Committee members did not reach consensus, it was (tentatively) decided not to add a standard-setting project to the work plan.

In our opinion, this approach is questionable in several respects. Firstly, the fact that the Committee members were unable to reach consensus suggests that the requirements of IFRS 18 are not sufficiently clear, and hence standard-setting is needed. Secondly, stakeholders are confused and uncertain as to how the tied vote of the Committee members should be interpreted. Typically, (tentative) agenda decisions explain how the applicable principles and requirements of IFRS Accounting Standards apply to the fact pattern described in the (tentative) agenda decision and thus provide guidance to stakeholders. In this case, however, the tentative agenda decision has not yielded the clarity that stakeholders have been hoping for as regards the classification of income and expenses from intragroup loans. Instead, it is perceived in practice with a high degree of uncertainty regarding the outcome of the IFRS IC's future deliberations.