CLASSIFICATION OF A FOREIGN EXCHANGE DIFFERENCE FROM AN INTRAGROUP MONETARY LIABILITIES AND ASSETS IN MULTINATIONAL TELECOMUNICATION COMPANIES UNDER IFRS18

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ABSTRACT
This paper analyses the classification of foreign exchange differences arising from intragroup monetary items under IFRS 18 Presentation and Disclosure in Financial Statements. IFRS 18 introduces a new structure for the statement of profit or loss, requiring income and expenses to be classified into operating, investing, financing, and other specified categories, with paragraph B65 mandating that foreign exchange differences be classified consistently with the income and expenses of the underlying item. So, the aim of this paper is to analyze and make a recommendation on how the foreign exchange differences from intragroup transactions will be classified in the IFRS18 structure of the Statement of Profit and Loss. However, intragroup income and expenses are eliminated under IFRS 10, while IAS 21 requires exchange differences on intragroup monetary items to remain recognized in consolidated profit or loss — creating a classification challenge. The paper evaluates five theoretical options and explains why the IFRS Interpretations Committee rejected Options 2, 3, and 5. The analysis concludes that only two classification outcomes are acceptable: (i) Option 1 — classify in the same category as the underlying intragroup income or expense would have been classified if not eliminated, or (ii) Option 4 — default to the operating category if that cannot be determined without undue cost or effort. Given that Option 1 relies on interpretative reasoning rather than explicit IFRS 18 requirements, this paper argues that, under the standard's current wording, the operating category is likely to become the prevailing classification in practice. The paper highlights the need for further clarification by the standard-setter to avoid future inconsistency across reporting entities and preserve IFRS 18's objective of enhanced transparency and comparability.

Keywords: *IFRS18, Exchange differences classification, Operating, financing and investing category; Profit and loss statement structure; Accounting presentation*

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1. INTRODUCTION

In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements*, marking one of the most significant developments in financial reporting since the introduction of IFRS. The new standard replaces IAS 1 and seeks to substantially enhance the structure and clarity of financial communication, with a particular emphasis on improving the presentation and disaggregation of financial performance in the statement of profit or loss. Although IFRS 18 does not change how financial performance is measured, it introduces fundamental changes to how results are presented and disclosed, aiming to provide investors with more comparable, transparent, and decision-useful

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information across industries and jurisdictions. The standard becomes effective on 1 January 2027, with early application permitted.

IFRS 18 aims to improve financial reporting, i.e., increasing transparency and comparability of the financial statements by:

- requiring additional defined subtotals in the statement of profit or loss;
- requiring disclosures about management-defined performance measures; and
- adding new principles for grouping (aggregation and disaggregation) of information.

The second and third requests above are not in focus of this paper, so will not be further elaborated.

Adding defined subtotals to the statement of profit or loss makes companies' financial performance easier to compare and provides a consistent starting point for investors' analysis. Items of income and expense shall be classified into categories in the statement of profit or loss:

- operating
- investing
- financing
- income tax, discontinued operations.

The *operating category* is the default category that:

- comprises all income and expenses arising from a company's operations, regardless of whether they are volatile or unusual in some way. Operating profit is not a measure of 'persistent' or 'recurring' operating performance. It provides a complete picture of the results from a company's operations for the period.
- includes, but is not limited to, income and expenses from a company's main business activities. Income and expenses from other business activities, such as income and expenses from additional activities, are also classified in the operating category if those income and expenses do not meet the requirements to be classified in any of the other categories.

The *investing category* comprises income and expenses from:

- investments in associates, joint ventures, and unconsolidated subsidiaries;
- cash and cash equivalents; and
- other assets that generate a return individually and largely independently of the company's other resources.

The *financing category* comprises:

- income and expenses from liabilities arising from transactions that involve only the raising of finance, and
- interest income and expenses, and the effects of changes in interest rates from liabilities arising from transactions that do not involve only the raising of finance.

Among the other classification discussions, one of the most emphasized interpretations is for the classifications of the foreign exchange differences from an intragroup transaction.

The Interpretation Committee received a request about the classification of a foreign exchange difference from an intragroup monetary liability (or asset). Paragraph B65 of IFRS 18 Presentation and Disclosure in Financial Statements requires an entity to 'classify foreign exchange differences included in the statement of profit or loss applying IAS 21 [The Effects

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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...' (IASB, 2025).

Multinational enterprises (MNEs) in the telecommunications industry operate at the intersection of heavy capital intensity, complex revenue arrangements, and structurally diverse corporate groups. Typical features include multi-jurisdictional footprints, treasury and financing centres, extensive intercompany service arrangements, and material exposures to foreign exchange (FX) risk stemming from cross-border procurement, spectrum license payments, roaming settlements, and intra-group funding. Against this backdrop, the introduction of IFRS 18 Presentation and Disclosure in Financial Statements reconfigures how performance is portrayed by requiring consistent classification of income and expenses into operating, investing, and financing categories, together with clearer subtotals and disaggregation principles. A pivotal aspect—particularly salient for telecom MNEs with frequent intra-group monetary positions—is how FX differences are classified in profit or loss when they arise from items whose related income and expenses are eliminated on consolidation. IFRS 18 directs entities to align the classification of FX differences with that of the underlying item; when consolidation eliminates the underlying income/expense, practice questions emerge about default versus look-through classification approaches.

This case examines a large, anonymized telecommunications conglomerate with operating subsidiaries across both developed and emerging markets. The conglomerate deploys centralized treasury policies, routinely issues intercompany loans to fund network rollout and spectrum acquisitions, and settles substantial roaming and infrastructure-sharing payables between group entities. These arrangements are denominated in multiple currencies and frequently retranslated, generating recurring FX differences. Under IFRS 10, intra-group income and expenses are eliminated, whereas IAS 21 requires FX differences on intra-group monetary items to remain in consolidated profit or loss—producing a presentation challenge precisely addressed by IFRS 18's categorization model and its guidance on FX classification. The issue is not merely technical; for an industry where external stakeholders scrutinize operating profit and cash-based performance indicators, the placement of FX effects (operating vs. investing vs. financing) can materially influence performance narratives, KPI targets, loan covenants, and management compensation design.

2. LITERATURE REVIEW

Identifying and measuring FX risk is far from easy. Few CFOs, even among the best, measure more than a small portion of their overall risk. Many companies manage only visible and easily quantifiable risks, such as exposure to foreign currency liabilities. And CFOs seldom comprehend all the risks in their business. They may not understand, say, the relationship between exchange rates and the local prices in the markets where they sell their products (Coppe *et al.,* 1996). The application of the provisions of the IAS 21 standard, if it is necessary to recalculate financial reporting indicators into foreign currencies, will allow Russian companies to generate the most correct information that will be useful to users to assess their financial situation, considering the influence of currency factors. At the same time, the reporting organization should further disclose in its accounting policy the methods for converting financial reporting indicators, including those recommended by IFRS (Kryatova *et al.,* 2022). The objective of IAS 21 is to prescribe the basis for selecting an entity's functional currency and the accounting treatment for the recognition of, and subsequent measurement of, transactions denominated in a foreign currency, and the process of translating financial statements denominated in a foreign currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements (Muthupandian, 2009). As the interaction of companies across borders increases, accounting for foreign exchange transactions as well as translation of financial statements has become an important topic. An entity is exposed to foreign exchange gains or losses through investments or balances in a foreign currency or ownership in a foreign operation. In order to assess these risks and the related impact, foreign currency transactions and balances should be accounted for accurately. IAS 21 aims to set the framework for the inclusion of foreign currency transactions and foreign operations in the financial statements of an entity and translation of financial statements into a presentation currency (Cayirli, 2020). The International Accounting Standards Board (IASB) is poised to introduce a new standard, IFRS 18 Presentation and Disclosure in Financial Statements, scheduled to come into effect on January 1, 2027. IFRS 18 intends to define operating profit as residual income after deducting the investing and financing categories from the total (Lee, 2024). Moreover, the widespread use of outsourced accountants may also pose challenges in terms of knowledge transfer and training. Companies may need to invest in educating their outsourced accounting teams about the requirements of IFRS 18 and providing ongoing support to ensure accurate and consistent implementation (Neves, 2024).

3. RESULTS AND ANALYSIS

The main question is how an entity, when applying IFRS 18, classifies a foreign exchange difference arising from intragroup monetary liabilities and assets.

Two main transaction types should be analyzed as the most prominent examples in the multinational telecommunication companies:

a) Intragroup loans to the subsidiaries
b) In-house cash pooling

The first example arises when a parent entity provides an intragroup loan to its subsidiary and the two entities have different functional currencies. The loan is in the functional currency of either the parent or the subsidiary. On initial recognition, the entity measures the loan using the spot exchange rate at the transaction date. At each subsequent reporting date, the loan is retranslated at the closing exchange rate, with any resulting exchange differences recognized in profit or loss. The payable and receivables will be eliminated in the consolidated Financial Statement and also the interest income and expenses. Nevertheless, the exchange differences arising from those transactions should stay in the PL.

Another prominent example is cash management or in-house cash pooling in multinational telecommunications companies. In-house cash (IHC) is a centralized internal bank arrangement within a multinational group, typically managed by the Group Treasury or a shared service center. It allows subsidiaries to settle intercompany payables and receivables and optimize group liquidity without using external banks for every transaction.

The IHC facilitates Centralized funding of subsidiaries (internal lending), Efficient use of surplus cash, Centralized FX and interest-rate management, and also reduction of external transaction costs.

During consolidation:

- All intercompany receivables/payables and related FX effects are eliminated.

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- FX gains/losses arising from intra-group monetary items cancel out, except where balances exist between entities with different functional currencies and the transaction is not fully reciprocal at period-end.

In accordance with paragraph B86(c) of *IFRS 10 Consolidated Financial Statements* the entity should eliminate in full the intragroup loan and any resulting intragroup income and expenses: *"Eliminate in full intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions"* (IASB, 2011).

However, in accordance with paragraph 45 of IAS 21 the entity should not eliminate the exchange difference:
"The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see IFRS 10 Consolidated Financial Statements). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss…" (IASB, 2025).

The main question that arises here is how to apply paragraph B65 of IFRS 18 when classifying, in its consolidated statement of profit or loss, the exchange difference if the income and expenses from the item that gave rise to that exchange difference have been eliminated on consolidation.

Theoretically, five options exist:
Option 1 - in the same category as the income and expenses from the intragroup loan would have been classified if those income and expenses had not been eliminated on consolidation.
Option 2 - in the financing category because the exchange difference results from a transaction that, in substance, relates to the raising of (intragroup) finance.
Option 3 - in the investing category because the exchange difference, in substance, arises due to a transfer of cash from one currency into another currency for a period of time.
Option 4 - in the operating category. Because the income and expenses from the intragroup loan have been eliminated on consolidation, the parent cannot apply paragraph B65 of IFRS 18 to classify the exchange difference. Consequently, applying paragraph 52 of IFRS 18, the parent classifies the exchange difference (by default) in the operating category.
Option 5 - by applying any of the first four views consistently following an accounting policy choice because IFRS 18 does not have explicit requirements on how to classify the exchange difference.

The IFRS Interpretation Committee discussed this topic in September 2025 and came to the following conclusion.

Paragraph B65 of IFRS 18 (reproduced in paragraph 9 of this paper) contains requirements for classifying exchange differences in the statement of profit or loss. Based on our analysis, it can be concluded that a reasonable reading of the applicable requirements results in the entity classifying the exchange difference as either:
(a) in the same category in which it would have classified the income and expenses from the intragroup loan if those income and expenses had not been eliminated on consolidation, or, if doing so would involve undue cost or effort, in the operating category; or
(b) in the operating category as the default category applying paragraph 52 of IFRS 18 (IC, 2025).

Options 2, 3, and 5
This means the IFRS IC disagrees with Option 2 and Option 3. As mentioned, the exchange difference arises from the intragroup loan itself and not from a cash transfer which means is contrary to Option 3. Furthermore, the exchange difference is recognized by the group entity for which the loan is a foreign currency transaction — whether borrower or lender — and therefore cannot be viewed as arising solely from the raising of intragroup finance, which means is contrary to Option 3.

Accordingly, IFRS IC also disagrees with Option 5, which assumes Options 2 and 3 are acceptable alternatives. Because Options 2 and 3 are not acceptable, Option 5 is also not acceptable.

Option 1
The argument for this option is based on that the elimination of intragroup loans does not mean that the loan does not exist in the consolidated financial statements, but the intragroup loan is eliminated for presentation purposes only.

Although paragraph 7.10 of the Conceptual Framework is in the context of items that are offset in the statement of financial position,

"Offsetting occurs when an entity recognizes and measures both an asset and a liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate" (IASB, 2018)

is reasonable to consider that this concept of offsetting also applies to income and expenses that are offset in the statement of profit or loss. Therefore, IC stated that …it is reasonable to conclude that eliminating income and expenses arising from an intragroup loan on consolidation does not mean that those income and expenses do not exist; rather, those income and expenses have been offset for presentation purposes…

Applying this approach to the example mentioned above in this paper, if the loan is granted in the functional currency of the parent company, the exchange differences that are recognized by the subsidiary, should be presented in the parents consolidated financial statements as exchange difference in the financing category because any interest expense on the loan (which has been eliminated against the corresponding interest income on consolidation) would have been classified in the financing category.

Vice versa, if the loan is granted from the parent company to the subsidiary in the functional currency of the subsidiary then the exchange differences will be recognized by the parent entity and should be presented in the parents consolidated financial statements as exchange difference

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in the investing category because any interest income on the loan (which has been eliminated against the corresponding interest income on consolidation) would have been classified in the investing category.

Option 4
The parent entity can apply paragraph B65 of IFRS 18 only if there is a 'category' within which income and expenses arising from the item that gave rise to the exchange difference, but in the example given above, the income and expenses arising from the intragroup loan have been eliminated on consolidation and are consequently not presented in the consolidated statement of profit or loss. In this situation, the parent entity reasonably could conclude that there is no 'same' category within which it can classify the exchange difference and, therefore, it classifies the exchange difference in the operating category as the default category applying paragraph 52 of IFRS 18

4. CONCLUSION

The classification of foreign exchange differences arising from intragroup monetary items under IFRS 18 requires the application of paragraph B65, even when the related intragroup income and expenses are eliminated on consolidation in accordance with IFRS 10. There are 5 theoretical options of classification and as analyzed above it is reasonable such exchange differences should be classified either (i) in the same category in which the income and expenses from the intragroup loan would have been presented had they not been eliminated (Option 1), or (ii) in the operating category as the default category (Option 4, applying paragraph 52 of IFRS 18).

Options 2 and 3 are not acceptable because the exchange difference arises from the intragroup loan itself — not from the raising of finance or a cash transfer. Consequently, Option 5, which assumes these to be acceptable alternatives, is also not acceptable.

So, at the moment 2 Options are available where reading the IFRS 18 standard and especially the 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...' but es the income and expenses from the items that gave rise to the foreign exchange differences does not exist and are eliminated the entity should apply paragraph 52 of IFRS 18 and classify the exchange differences in the operating category as the default category. So, if the standard setters do not amend the IFRS18, it can be concluded that reading the current standard is leading to classification in Operating category because Option 1 is not based on the explicit requirements of IFRS18 but is based just on interpretation of IFRS 10 and Conceptual framework that the elimination of intercompany transactions does not means the transactions does not exist from Group point of view in the consolidated financial statements.

An additional topic for discussion is what if the standard setters do not come with further clarification. That may result in setting accounting policy by the entities and different companies to have a different approach, which, on the other side, conflicts with the main aim of the standard mentioned above in this paper that IFRS 18 should result in more transparent and comparable consolidated financial statements.

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