CHALLENGES IN APPLYING IFRS 18 CATEGORISATION PRINCIPLES: THE CASE OF FOREIGN EXCHANGE DIFFERENCES ON INTRAGROUP MONETARY ITEMS

ABSTRACT

This study investigates the professional judgment exercised by senior accountants and advisory experts when classifying foreign exchange (FX) differences on intragroup monetary items under the newly introduced IFRS 18 Presentation and Disclosure in Financial Statements. A regulatory ambiguity arises because while IFRS 10 mandates the elimination of intragroup loans, IAS 21 requires the associated FX effects to remain in profit or loss, creating a "classification orphan" within IFRS 18's defined categories. Using a qualitative exploratory approach, the research draws on semi-structured interviews with seven experts from DAX-listed multinational corporations and Big 4 firms in Germany.

The findings reveal a unanimous preference for 'View I' (as outlined by the IFRS Interpretations Committee), which classifies FX differences in the default operating category. Participants reject the alternative 'View II' as conceptually tenuous and operationally burdensome. The study identifies that the preference for View I is driven by the need to avoid significant accounting system redesigns and to prevent artificial volatility in MPMs. These results contribute empirical evidence to the standard-setting discourse, demonstrating that in the absence of prescriptive guidance, preparers prioritize accounting solutions that ensure operational stability and reporting consistency over default categorizations.

Keywords: IFRS 18, Foreign Exchange Differences, Professional Judgment, Classification of Income and Expenses

1. INTRODUCTION

This study investigates how large multinational groups, with subsidiaries operating in both developed and emerging markets and with centralized treasury functions or intragroup financing structures, exercise judgment in determining the appropriate accounting treatment and classification of foreign exchange (FX) differences arising on intragroup monetary items. Such conglomerates routinely engage in transactions denominated in multiple currencies, leading to frequent retranslation and recurring FX differences. Although IFRS 10 (IASB, 2024b) requires the elimination of intragroup income and expenses, IAS 21 (IASB, 2023a) stipulates that FX differences on intragroup monetary items must be retained in consolidated profit or loss. This creates a presentation challenge when IFRS 18 (IASB, 2024c) categorization model and guidance need to be applied when deciding on the classification of FX effects.

The significance of this issue extends well beyond technical compliance. External stakeholders, particularly investors and analysts, interpret operating profit and cash-based performance metrics as key indicators of management performance and business model strength. Consequently, the categorization of FX effects (operating vs. investing vs. financing) can materially influence performance narratives, comparability, market expectations, KPI evaluations, loan covenant compliance, and even managerial compensation structures. The high visibility of these metrics increases the stakes of classification decisions and amplifies the need for robust professional judgement.

To fully appreciate the complexity of this judgment, it is necessary to consider the specific regulatory conflict recently addressed by the IFRS Interpretations Committee (IFRS IC, 2025). The core challenge arises because IFRS 18 (IASB, 2024c) requires all income and expenses to be classified into defined categories (operating, investing, or financing), yet a 'classification orphan' is created during consolidation. While IFRS 10 (IASB, 2024b) mandates the elimination of the intragroup loan itself, IAS 21 (IASB, 2023a) requires the associated foreign exchange difference to remain in profit or loss. Addressing this, the IFRS IC (2025) outlined two potential approaches: View I' classify FX differences under the default operating category in accordance with paragraph 52 of IFRS 18 (IASB, 2024c) and '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. The Committee's conclusion that both views represent reasonable applications of IFRS 18, without the initiation of a standard-setting project to enforce a single method, effectively transfers the burden of resolution back to preparers. This regulatory ambiguity compels management to arbitrate between competing interpretations, weighing conceptual faithfulness against the practical realities of their consolidation systems.

The reliance on IFRS's principle-based framework and guidance often leave room for interpretation, particularly in areas involving complex or atypical transactions (Han et al., 2019). Prior research demonstrates that such standards require significant professional judgement and discretion (Oro and Klann, 2018; Pan and Patel, 2017; Psaros, 2007). New IFRS standards replacing previously applied rules can further intensify uncertainty. Because principles-based regimes generally permit more than one acceptable accounting outcome, management must not only interpret the underlying economics but also select the most appropriate alternative rather than a merely satisfactory one. This decision may be influenced by prior experience, heuristics, organizational incentives, and tolerance for ambiguity (Oro and Klann, 2018; Pan and Patel, 2017). Han et al. (2019) contend that the scarcity of prescriptive guidance creates ambiguity regarding how management interprets complex transactions and whether they ultimately select the most appropriate accounting treatment. Thus, the aim of the research reported in this paper was to explore management's cognitive processes, professional judgment and decision-making strategies when applying principle-based standards to intricate scenarios. By examining how senior accountants and IFRS advisors navigate uncertainty, the study offers exploratory, practice-based evidence valuable to the standard-setting discourse, particularly for emerging issues lacking formal regulation.

To investigate this issue, this study employs a qualitative, exploratory approach based on semi-structured interviews. The analysis draws on the detailed insights of seven senior accounting practitioners and Big 4 advisors from Germany who are actively navigating the implementation of IFRS 18 in large multinational environments. The findings reveal a strong consensus among these experts in favor of 'View I,' which classifies FX differences under the default operating category. Participants emphasized that this preference is driven not only by theoretical alignment but also by significant practical constraints. Specifically, the alternative 'View II' was viewed as creating unnecessary risk, as it would require extensive changes to treasury IT systems and introduce unpredictable volatility into MPMs. Ultimately, this research highlights that in the face of regulatory ambiguity, management tends to prioritize accounting solutions that ensure operational stability and reporting consistency.

This paper is organised as follows: First, it presents the research context and the complex problem of presentation of FX differences from intragroup monetary items. Next, it reviews relevant literature on application of principles-based accounting frameworks, the need for exercise of professional judgment in applying principles and factors that influence the professional judgment of accountants. The methodology section then describes the selected participants, the data collection methods employed, and the analysis procedures used. Following this, the findings of the study are presented. Finally, the paper concludes with recommendations based on the findings, limitations of the study and areas of future research.

2. RESEARCH CONTEXT: PRESENTATION OF FX DIFFERENCES FROM INTRAGROUP MONETARY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS 18

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 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.

Items of income and expense shall be classified into categories in the statement of profit or loss:

- operating
- investing
- financing

- income tax, discontinued operations

Between the other classification discussions one of the most emphasized interpretations is for the classifications of the foreign exchange differences arising from intragroup monetary liabilities and assets.

During consolidation:

- All intercompany receivables/payables and related FX effects are eliminated.
- 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 (IASB, 2024b) the entity should eliminate in full the intragroup loan and any resulting intragroup income and expenses. However, in accordance with paragraph 45 of IAS 21 (IASB, 2023a) the entity should not eliminate the exchange difference. In the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss.

The main question here is how to apply paragraph B65 of IFRS 18 (IASB, 2024c) when consolidating entity needs to classify exchange differences, in its consolidated statement of profit or loss, if the income and expenses from the item that gave rise to that exchange difference have been eliminated on consolidation applying the requirements of IFRS 10.

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 (IASB, 2024c) to classify the exchange difference. Consequently, applying paragraph 52 of IFRS 18 (IASB, 2024c), 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 Interpretations Committee (IFRS IC) addressed the classification of foreign exchange (FX) differences arising from intragroup monetary assets and liabilities under IFRS 18 Presentation and Disclosure in Financial Statements and IAS 21 The Effects of Changes in Foreign Exchange Rates. The Committee's 2025 staff paper was prepared to support its deliberations on whether to add a standard-setting project to clarify this issue, which remains significant given the practical implications for multinational entities with intercompany loans denominated in foreign currencies (IFRS IC, 2025).

The matter concerns how to classify FX differences that remain in consolidated financial statements after the elimination of the related intragroup monetary items. *IAS 21* (paragraph 45) stipulates that exchange differences on intragroup monetary items cannot be fully offset, as they reflect genuine currency exposure at the group level. Accordingly, these differences must be recognized in profit or loss, even though the underlying assets and liabilities are eliminated on consolidation (IFRS IC, 2025, p. 3).

Under *IFRS 18*, paragraph B65 requires entities to classify FX differences in the same profit or loss category as the income and expenses from the items that gave rise to them, unless doing so would involve undue cost or effort. The Committee noted that uncertainty arises when the income and expenses from intragroup loans are eliminated on consolidation, leaving no visible "same category" to apply. In examining possible interpretations, the IFRS IC considered several views, including classifying FX differences in (a) the same category as the eliminated income and expenses, (b) the financing or investing categories, or (c) the operating category by default (IFRS IC, 2025, pp. 4–5).

The Committee concluded that two views represent reasonable applications of IFRS 18. *View I*, supports classifying such differences in the operating category as a default, consistent with paragraph 52 of *IFRS 18*, particularly when determining the original classification would involve undue cost or effort (IFRS IC, 2025, pp. 7–10). Under *View II* the FX difference should be classified in the same category as the income and expenses that would have been recognized if not eliminated or, if doing so would involve undue cost or effort, in the operating category.

After evaluating both interpretations, the IFRS IC decided not to initiate a standard-setting project. The Committee determined that the existing framework provides adequate guidance, and any resulting diversity in application would not materially impair comparability. Instead, the IFRS IC emphasized consistent application within entities and transparent disclosure under *IAS 8* and *IFRS 18* of how material FX differences are classified and the judgements applied (IFRS IC, 2025, pp. 13–15).

3. LITERATURE REVIEW

Principles-based accounting frameworks, such as IFRS, are recognized for the benefits provided to users to focus on the underlying reality and economic substance rather than the technical structure of a transaction. Such frameworks aim to generate financial statements that are more accurate, informative, and comparable across different jurisdictions (Barth et al., 2008; Cabán, 2024; Garcia, 2019; Nobes, 2015). This aligns closely with decision-usefulness theory, which posits that financial reporting serves stakeholders best when it reflects economic reality rather than strictly adhering to rigid, bright-line rules that can often be circumvented (Cabán, 2024). Principles-based accounting enhances overall reporting quality by providing preparers with the flexibility necessary to capture the nuances of complex or rapidly evolving business environments, ensuring that financial information remains relevant even as market conditions shift (Barth et al., 2008; Cabán, 2024; Garcia, 2019).

However, the flexibility inherent in principles-based standards comes with a significant responsibility: the application of such standards necessitates the exercise of significant professional judgment (Cabán, 2024). Because management must process complex and often incomplete information to facilitate accounting decision-making, the application of judgment becomes a fundamental cognitive prerequisite rather than an optional exercise (Oro and Klann, 2018). Indeed, sound judgment is viewed as a core competency and a distinguishing characteristic of the accounting profession, elevating the accountant's role from a passive processor of data to an active interpreter of financial reality (Harding and Ren, 2007). Harding and Ren (2007) define judgment as “decision-making in the face of ambiguity,” a cognitive process requiring careful deliberation among multiple viable solutions. This requirement for deliberation is particularly relevant to IFRS, which is characterized by inherent ambiguity regarding how practitioners should interpret vague or broad guidance (Han et al., 2019). This ambiguity creates uncertainty as to how different accountants will resolve similar issues. Despite these challenges, appropriate professional judgment is essential for ensuring consistent accounting practices. Without it, the goal of producing comparable and decision-useful financial information cannot be realized (Han et al., 2019; Psaros, 2007).

The decision-making process involved in exercising this judgment is multifaceted and dynamic. Accountants rely on intrinsic input factors, such as their technical knowledge and prior professional experience, while employing diverse strategies to process information (Banner, 1999; Oro and Klann, 2018). Yet, this process is not immune to influence; it is susceptible to a myriad of external and internal pressures. Research indicates that accountants may be significantly influenced by their personality traits, cultural background, economic incentives, legal reasoning habits, and organizational power dynamics (Oro and Klann, 2018; Pan and Patel, 2017).

Behavioral responses to this discretion vary significantly. Some practitioners adopt a "legalistic" approach, relying heavily on rules and exercising extreme caution to minimize inconsistency with peers, thereby prioritizing defensibility over the most faithful representation (Pan and Patel, 2017). Conversely, others may exploit the discretion afforded by IFRS. When standards or relevant literature do not clearly prescribe a specific treatment, there is a distinct risk that judgment may be used and misused for developing aggressive reporting practices, portraying events favorably to meet targets or to support a preferred accounting outcome (Cuccia et al., 1995; Jamal and Tan, 2010; Pan and Patel, 2017; Psaros, 2007).

One documented and researched practice of aggressive reporting is classification shifting. Classification shifting is defined in the accounting literature as the intentional misclassification of core expenses as income-decreasing special items for the purpose of increasing reported core performance. McVay (2006) establishes the foundational evidence for this reporting strategy, observing that managers shift recurring operating costs, such as cost of goods sold, into special item categories. Unlike accruals management, which affects net income over time, classification shifting changes the presentation of the income statement without altering bottom-line earnings.

This practice relies on the tendency of investors to focus on core earnings as a proxy for sustainable performance while discounting special items as transitory. Research indicates that the motivation for classification shifting often arises from the pressure to achieve specific financial targets. Fan et al. (2010) find that managers are more likely to engage in this behavior to meet or just beat analyst earnings benchmarks, particularly during the fourth quarter when other earnings management channels may be constrained.

Obtaining an understanding of accounting judgements including how ambiguity in IFRS affects the judgements of accountants and other factors influencing accountants' judgements, has received limited attention in accounting research, therefore created the purpose and motivated us to complete this study.

4. METHODOLOGY, SELECTION OF PARTICIPANTS AND DATA GATHERING

To explore the heuristics involved in judgment and decision-making regarding the classification of foreign exchange differences on intragroup monetary items under the principle-based guidelines of IFRS 18, this study adopts a qualitative exploratory approach. While accounting has historically rooted as a primarily quantitative discipline, qualitative methods have become increasingly vital for addressing the limitations of traditional practices and fostering innovation in financial reporting research (Lee & Humphrey, 2006). A qualitative design was deemed imperative to capture descriptive, rich data regarding how management processes information and applies professional judgment when accounting for complex transactions (McKenzie & Danforth, 2014; Myers, 2009).

The introduction of IFRS 18 requires preparers to make subjective distinctions between operating, investing, and financing categories, a cognitive process that quantitative analysis cannot easily decode. Unlike quantitative approaches, which focus on distinct facts and figures, this methodology emphasizes the interpretation of meaning, human behavior, and the participants' own explanations of their experiences (Jackson, 1999; Patton, 2002). Given that IFRS 18 is a transformative standard with limited existing empirical literature, quantifiable historical data is unavailable. Therefore, an interactive approach is required to glean in-depth insights into the implementation, interpretation, and likely impact of the standard from multiple professional perspectives.

Semi-structured interviews were employed as the primary data collection method to ensure a comprehensive understanding of the participants' technical reasoning. This format allows for the investigation of spontaneous issues and the clarification of responses, while permitting the researcher to interact effectively with participants (Creswell & Guetterman, 2019; Pedhazur & Schmelkin, 2013). The interview protocol was designed not only to gather technical views but also to uncover the organizational pressures and heuristic shortcuts involved in adopting the new standard. The semi-structured interview is particularly effective for disclosing hidden facets of organizational behavior and allows the researcher to understand the worldview of the interviewee, capturing intentions and thoughts that cannot be observed directly (Kvale & Brinkmann, 2009; Patton, 2002). This approach balances researcher control with the flexibility required for human conversation, enabling the interviewer to modify the pace and order of questions to evoke the fullest responses in the participants' own terminology. Through this dialectic process, the study captures the "how" and "why" behind the classification decisions, rather than just the "what."

Sample size determination in qualitative research is generally guided by the concept of saturation, the point at which no new themes emerge, rather than statistical representativeness (Glaser & Strauss, 1967). To benchmark the sample size, this study references Dai et al. (2019), who analyzed 639 interview-based articles in major accounting journals between 2000 and 2014. They found that while the median number of interviews was 26, a significant number of published studies relied on fewer than 15 interviewees, particularly when the sample possessed high expertise specificity.

Participants were selected via purposive sampling based on their profound experience with IFRS 18, obtained either through direct management of financial statements (high experience preparers) or high-level consulting engagement (IFRS experts from Big 4 firms). Recruitment of potential interviewees was conducted between October 3 and 10, 2025, with 23 potential participants contacted via email. This process yielded 7 participants: 5 accounting managers and two IFRS experts from Big 4 firms. The interviews were conducted during the week of October 27, 2025. The relatively low participation rate compared to the initial outreach reflects the high barrier to entry regarding the topic; several invited experts declined, citing a lack of sufficient practical experience with the complexities of IFRS 18. Nevertheless, the final sample represents a highly concentrated pool of expertise sufficient for exploratory analysis.

5. FINDINGS AND DISCUSSION

This section is based on the topics identified during the thematic analysis. The participants in the study were highly experienced experts in accounting with many years of experience in IFRS. Two participants are experts in a Big 4 firm in Germany and five participants are IFRS experts from the accounting departments of DAX companies. Two participants from those five are engaged on the methodological side and are responsible for setting the accounting policy, and three participants are responsible for the implementation of IFRS standards. All seven participants are working on the interpretation and implementation of IFRS 18 directly after the standard was published in May 2024, and some of them are also involved in commenting on the IFRS IC Staff paper on this topic published in September 2025. The commenting period closed on 25 November 2025.

For cross-reference purposes and to better understand the quotes provided by participants in the findings of the study, a summary of important themes identified is compiled in Appendix 3. The participants who mentioned each theme are listed, including reference to their demographics.

As explained in section two of the paper, the IFRS IC staff paper (2025) offered two options, View I and View II, and that was the most discussed topic by the participants in the interviews. All participants—P1, P2, P3, P4, P5, P6 and P7—preferred View I, although they stated different reasons for this preference and provided relevant comments that can be valuable for further analysis.

P1, P2, P3, P5 and P7 indicated that implementation of View I seems relatively simple, whereas View II requires a higher degree of detailed information which are not available now in the accounting systems. Thus, View II requires significantly more project and process adjustment resources.

P4, P2 and P5 explained that the implementation of View I has already started and is in an advanced phase, but they are still conducting feasibility studies in parallel for View II, which eventually will allow them to implement it later if needed.

P3, although preferring View I mainly because of the practical implementation, mentioned that some companies are still arguing that all effects relate to the overarching goal of providing financing throughout the group and therefore prefer to show all intercompany FX effects within financing.

P6 prefers View I because it means the lowest risk in implementation with virtually certain likelihood that the company will get a solution that will be viable after the final decision. This is especially the case because seven IFRS IC members at their meeting on 25 September 2025 voted for View I as the only possible option and the other seven participants stated that View I is also possible. He also mentioned that only one company intends to implement a solution on their own, without any explicit guidance from the community or standard setters. The company is fully aware of the circumstances and the risk of a late switch in the treatment.

P1 prefers View I for several reasons. First, a group's consolidated financial statements should present a group of legal entities under common control as one economic entity. The internal structure and transactions should not have significant influence on the presentation of the group, and the management of a group should not be able to optimize the group's presented performance by shaping the group's internal structure or transactions. View I is almost immune to window-dressing activities, whereas View II is highly influenced by the group's internal structure or transactions. Second, if both views are allowed, the policy choice will reduce the comparability of consolidated financial statements. Third, View I is an elaborated and analyzed view from many aspects and can be applied without significant risks immediately, whereas View II is currently only an "in-progress" approach. By deciding for View II, a company faces a lot of unanswered methodological questions that need to be resolved before the effective date in 2027. This leads to significant disadvantages: methodological uncertainty and time delay.

Another topic that all participants were keen to discuss, and which was well elaborated during the interviews was the difficulties that the companies are facing during the implementation of IFRS 18 in the part of FX currency translation for intercompany transactions. Generally, nearly all participants explained that the implementation of View I is not very challenging and even mentioned that the implementation is simple. Nevertheless, the companies are still facing difficulties before the decision that View I should be implemented and during the implementation of View I.

P2, P4, P6 and P7 explained that although the accounting community and the IFRS IC are talking mainly about intercompany loans, the topic of In-House Cash (IHC) is even more complex, and so-called swing bank accounts that are changing the balance from credit to debit, under View II, can result in different classifications of FX differences in investing or financing categories even on a daily basis.

P4 stated that View II is so vague that neither the scope nor the exact accounting can be derived from the information available so far.

P3 mentioned that in theory it would be appropriate to understand the flow of resources through the company to understand the substance behind the transactions. However, in practice it will be difficult to argue whether the purpose of intercompany transactions is purely operating or related to another matter. Some may be purely for operational funding; some may be mixed; and others may be for the purpose of financing.

P6 mentioned two challenges: first, lack of clarity and timing of the decision process from the standard setter and the interpretation committee, and second, difficulties in the technical implementation and process adjustments that will be elaborated later in more detail.

P6 raised another topic regarding FX hedging accounting treatment which should be changed with the change of the FX classifications. Namely, if the FX effects are presented in more categories, which is especially the case with View II, for example financing and investing, then the volume of the instruments should be grossed up, as the FX effects are also presented on a gross basis in the different categories of the statement of profit and loss. This will cause additional expenses for the company. This is just an example that the board is approaching the issue from an accounting perspective and may not have in mind that this can influence the real business. These changes in FX hedging will significantly affect the system processes of the Treasury department.

P1 stated that there is methodological uncertainty because of quality deficits in the standard-setting process. There is extensive and detailed guidance on the accounting for foreign exchange differences, i.e. the standard setter obviously didn't want to leave room for policy setting with IFRS 18. However, the rules for one of the main issues, FX differences on intercompany transactions, are insufficient. P1 also mentioned that there is more politically motivated discussion within the companies in the absence of high-quality rules in the IFRSs. As a result, the methodological departments are under high pressure to decide between uncertain and ineffective views and policies.

Another topic that attracted a lot of attention in the discussions with the participants of this study is the necessity for adjustment of already established processes, not only the accounting processes but also the processes of other departments such as Treasury, Controlling, Investor Relations, etc. Nearly all participants agreed that processes must be adjusted regardless of which option will be chosen, although the implementation of View I is simpler.

P1, P2, P4 and P7 indicated that the presentation of foreign exchange differences on intercompany transactions is generally more complex under IFRS 18 than under IAS 1, which means additional data is required.

P3 and P6 elaborated that higher granularity of accounts will be needed in the companies' charts of accounts. In addition, some of the current accounts must be split into one or more accounts because currently they are presented in one category (usually financing) and under IFRS 18 should be split into two or more accounts because they should be presented in different categories in the statement of profit and loss. Additionally, the processes must be redesigned as those new accounts should be included not only in accounting but also in treasury and controlling processes. In other words, not only the general ledger but also the source systems must be redesigned in the process of implementing IFRS 18. Since foreign exchange differences arise and change from day to day, this higher granularity will multiply the requirements for IT systems and the accounting team members.

P2 and P6 noted that the impact of the process adjustments will be especially significant for companies that have more standardized and more automated processes in dealing with foreign exchange. It would affect not only the way FX effects are presented in their statement of profit and loss, but it will also impact the processes behind it.

P3 noted that the process adjustment is highly dependent on the number of transactions, their heterogeneity, and the system layout currently in place at the companies. In any case, it must be identified, process-wise, at which point the mapping of an effect is decided, e.g. is it in the accounting system or in a treasury system beforehand. In addition, systematic "tags" should be given to all intercompany transactions to automatically steer the effects into the correct bucket. This may lead to changes to underlying systems or require customizing effort and resources.

Regarding processes, P5 mentioned a consolidation topic which can be considered very relevant. Namely, the FX effects from intercompany transactions need to be eliminated where applicable; one-sided effects should stay in the statement of profit and loss. Nevertheless, under IAS 1 many companies don't have an established process of reconciliation and elimination of those effects because they were presented in the same category and were "naturally" eliminated. Under IFRS 18 those effects are presented in different categories, so the consolidation process should be adjusted.

Decision-making processes are also very important, especially in cases like this one where it is necessary to deal with a large amount of uncertainty from many aspects.

P1 stated that there are two opposite perspectives in this case. On one side, the project team focuses on the ordinary project target, i.e. on-time and efficient establishment of accounting treatment in accordance with IFRS 18 and providing comparable information to the organization as soon as possible. On the other side, Controlling and Treasury are willing to optimize all KPIs even if the decision results in danger for the project goal.

P6 stated that the Investor Relations Department has a clear opinion on how results should be presented to the market; the Treasury Department evaluates what is feasible and what is not—at least when they are involved early, which is not always the case; the Controlling Department is struggling with some of the management-defined performance measures, especially when they are affected by the IFRS changes; and then, of course, the Accounting Department. Ultimately, it is a mixture of these departments and depends on how they can provide evidence for their stakes to Management.

P5 stated that the decisions are project-driven but tentative. For the project participants, it is very clear that if the company is the only one in the industry presenting foreign exchange effects as operating and others are not, then the company will need to do something because the performance measures would be incomparable and even awkward.

Another relevant topic in this study is whether the appropriate accounting treatment of FX differences on intercompany transactions has influence on the companies' MPMs and whether that influences the accounting decision. Nearly all participants noted that MPMs are critical for the projects and are a decision factor.

Only P2 mentioned that the FX differences on intercompany transactions are not included in the MPMs' definition and therefore have no influence on the decisions.

P3 mentioned that usually large companies have very formal processes for MPM steering, so if the FX effects are part of MPMs and they cannot be budgeted in advance, this can result in increased volatility of MPMs. Therefore, it may be necessary to think about adjusted measures.

P1 stated that the treatment of foreign exchange differences on intercompany transactions does influence MPMs, and that is the reason why specific stakeholders in the company try to force a decision in favor of the MPMs within their responsibility.

As the IASB staff acknowledged that the accounting treatment of exchange differences on intercompany transactions can have a significant impact on the entity's presentation of profit or loss and subsequently on MPMs, and that the management of an entity can significantly influence the presentation of performance by choosing the accounting policy as well as by structuring the group internal relationships, the current standard requirements are not able to ensure comparability, and only an amended IFRS 18 can reach the targets of the standard setters.

The last topic identified in this study is the further clarification needed from the standard setters or the accounting community. Most of the participants agreed that further clarification is needed because the current requirements are not sufficient and create uncertainty in the implementation of IFRS 18.

P2, P4, P5 and P7 stated that it is now unclear whether the policy choice between View I and View II is possible or whether only one view will hold in the end.

P4 expressed the specific view that the best way would be to adjust IAS 21. If so, the problem would be solved. Another option would be to eliminate View II as an appropriate accounting treatment.

P6 mentioned that clarification is needed because the intention of IFRS 18 is comparability, and for such a broad issue as foreign exchange—it is not a minor case; it is happening everywhere in every multinational company—this is really critical. Having a current setup with at least two views is not helpful and is not addressing the intention of the standards.

P1 and P3 stated that there is no clear guidance available so far from the auditors or the accounting community. If asked for advice, they suggest View I as a working assumption until the final guidance is published. This is the safest approach right now, as it will remain as one of the options (because all members of the IFRS IC voted in favor).

6. CONCLUSION

This study examined how preparers and IFRS experts from Big 4 firms exercise professional judgement when determining the classification of foreign exchange (FX) differences arising from intragroup monetary items under the newly introduced presentation requirements of IFRS 18. Drawing on evidence from seven senior experts employed either in DAX-listed multinational corporations or Big 4 advisory practices, the research provides an empirically grounded account of how judgement is formed and operationalized in an area where overlapping standards, IFRS 18, IFRS 10 and IAS 21, generate conceptual ambiguity and methodological uncertainty. Through a qualitative, thematically driven analysis, the study demonstrates how the principles-based nature of IFRS 18 requires preparers to navigate incomplete guidance, interdepartmental incentives, and significant system-related constraints, thereby underscoring the cognitive and organizational complexity inherent in implementing a transformational reporting standard.

The findings show that participants overwhelmingly favor View I of IFRS Interpretation Committee (2025), which classifies FX differences consistently with the nature of the underlying intragroup monetary item, even though the related income and expenses are eliminated on consolidation. This preference is grounded not only in conceptual reasoning, such as adherence to the substance of intragroup financing arrangements, but also in pragmatic considerations, including feasibility, process stability, and the desire to avoid introducing volatility into management-defined performance measures (MPMs). In contrast, View II was characterized as insufficiently articulated, conceptually tenuous, and operationally burdensome. Through interviews, participants emphasized that View II would require significant redesign of treasury systems, transaction tagging mechanisms, and consolidation processes, and would materially affect hedging relationships and risk management practices. The findings therefore illustrate that professional judgement is not exercised in isolation but is embedded within a broader organizational context in which multiple stakeholders (treasury, controlling, investor relations and project management) pursue divergent objectives with respect to performance presentation and comparability.

Taken together, the study demonstrates that IFRS 18, while intended to improve disaggregation and comparability, simultaneously exposes preparers to heightened interpretive demands. The research reveals that, in the absence of explicit guidance on intragroup FX differences, preparers tend to prioritize solutions that are robust, conceptually coherent, and minimally disruptive to internal processes. This highlights a central tension inherent in principles-based reporting: the need to balance conceptual faithfulness with operational practicability, especially in complex multinational settings. By documenting how experts anticipate and respond to this ambiguity, the study provides a timely and in-depth account of the practical implications of IFRS 18 in an area that has not yet been empirically examined.

The study offers meaningful contributions to the IFRS standard-setting discourse by providing systematic, practice-based evidence on an emerging issue for which formal guidance remains limited. The insights collected from senior practitioners reveal that the interaction between IAS 21, IFRS 10 and IFRS 18 creates interpretive conflict that preparers cannot resolve unambiguously through existing literature. These findings may serve as valuable input for the IASB and IFRS Interpretations Committee when assessing whether additional clarification, amendments, or illustrative examples are warranted to prevent diversity in practice. For the accounting community more broadly, the study enriches the understanding of how professional judgement operates under a high-discretion principles-based framework and identifies critical operational challenges, thereby offering a foundation for implementation guidance, training materials, and advisory practice.

Several limitations must be acknowledged when interpreting the results. First, the sample size is small, comprising seven experts, which is appropriate for exploratory qualitative inquiry but restricts broad generalization across industries or jurisdictions. Second, the subject matter itself is technically complex and spans multiple organisational functions, creating the possibility that even experienced practitioners may interpret specific nuances differently. Third, because IFRS 18 is not yet effective, empirical field evidence from actual implementations was not available, requiring participants to reflect on anticipated rather than observed outcomes. Consequently, the study captures expectations and preliminary assessments rather than definitive behavioral patterns or reporting consequences. Finally, the research is confined to the German IFRS environment; a larger, more internationally diverse sample could reveal alternative interpretive approaches shaped by different regulatory, cultural or organizational contexts.

The introduction of IFRS 18 creates substantial opportunities for future scholarly inquiry. Once the standard becomes effective in 2027, empirical studies may analyse actual financial statements to assess how entities classify intragroup FX differences in practice and whether diversity emerges across industries or jurisdictions. Future research could also investigate how system architecture, internal controls, and consolidation mechanisms are redesigned to accommodate IFRS 18's enhanced granularity and disaggregation requirements. Further avenues include examining the implications of FX classification choices for management-defined performance measures, managerial incentives, and capital market reactions. Finally, deeper exploration of other judgement-intensive aspects of IFRS 18, such as aggregation principles, operating–investing–financing distinctions, and the governance of MPMs, would contribute to a broader theoretical and empirical understanding of how principles-based standards shape behavior and reporting outcomes in complex multinational settings.

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Appendix 1. Professional background of interviewees

Table A1 includes the descriptive statistics on the experts who were interviewed. All participants were coming from the accounting departments in the large multinational companies in Germany only or from Big4 offices also in Germany as largest and most relevant accounting auditing and advisory companies in the world. All participants were identified as deeply involved in the implementation, discussion and commenting of IFRS 18.

Interview 8 was also started but although the participant was involved in the implementation of IFRS18 was not competent to discuss this specific topic on the accounting treatment of foreign exchange differences on intercompany transactions in accordance with IFRS 18.

Table A1. Summary of interviews conducted

		No. of people interviewed who were:	
Interview	Participant no.	Accountant	IFRS advisory team member
Interview 1	P1	1	
Interview 2	P2	1	
Interview 3	P3		1
Interview 4	P4	1	
Interview 5	P5	1	
Interview 6	P6		1
Interview 7	P7	1	

Source(s): Created by authors

Appendix 2. Interview guide

Questions:

1) Can you tell me about your experience and engagement in determining the accounting treatment of foreign exchange differences on intercompany transactions in accordance with IFRS 18?

2) Related to the IFRS Interpretations Committee offered options (view I and II), do you already prefer or working on implementation of one of the options and why?

3) What are your main difficulties you are facing in determining the accounting treatment of the foreign exchange differences on intercompany transactions in accordance with IFRS 18?

4) A. (for participants form multinational companies) Do you consult your auditor or external advisors related to determining the accounting treatment of the foreign exchange differences on intercompany transactions in accordance with IFRS 18 and whether you received clear guidance how to proceed?
   B. (for participants from Big4 as advisors) Do you already have clear opinion in advising the companies determining the accounting treatment of the foreign exchange differences on intercompany transactions in accordance with IFRS 18?

5) Can you tell me a little more about the decision-making process you are following to determine the accounting treatment of the foreign exchange differences on intercompany transactions in accordance with IFRS 18?

6) Does the intended accounting treatment of foreign exchange differences on intercompany transactions in accordance with IFRS 18 is challenging from process adjustment and implementation point of view?

7) Does the decision of determining the accounting treatment of the foreign exchange differences on intercompany transactions in accordance with IFRS 18 has an influence on the MPMs of your company and does that influence the decision?

8) Do you believe further clarifications from the standard setters is needed on the appropriate accounting of the foreign exchange differences on intercompany transactions in accordance with IFRS 18 and why?

9) Can you think of anything else that would be important or that we have missed discussing in determining/deciding what would be the appropriate accounting of the foreign exchange differences on intercompany transactions in accordance with IFRS 18?

Source(s): Created by authors

Appendix 3. Summary of results on important themes identified

Table A2 provides a summary of important topics identified. The participants who mentioned each topic are listed together with their demographics to enhance understanding of the quotes provided by various participants in the study's findings.

Table A2. Summary on important topics identified

Topic	Participants who mentioned each topic	Demographic details of participants
Implementation of View I is relatively simple	P1, P2, P3, P5 and P7	Accountant, IFRS advisory team member
Working on more options	P4, P2 and P5	Accountant
Arguing for classification in financing category only	P3	IFRS advisory team member
View I means lower implementation risk	P6	IFRS advisory team member
Policy choice will reduce the comparability	P1	Accountant
View II means methodological uncertainty and time delay	P1	Accountant
In-House Cash (IHC) is even more complex	P2, P4, P6 and P7	Accountant, IFRS advisory team member
View II is so vague, neither the scope nor the exact accounting can be derived	P4	Accountant
Understand the flow of resources	P3	IFRS advisory team member
lack of clarity and timing from the standard setter	P6	IFRS advisory team member
Change of FX hedging accounting treatment	P6	IFRS advisory team member
Methodological departments are under high pressure to decide	P1	Accountant
Under IFRS 18 additional data is required	P1, P2, P4 and P7	Accountant
Source systems adjustments is needed	P3 and P6	IFRS advisory team member
Process adjustments are significant for more standardized and more automated processes	P2 and P6	Accountant, IFRS advisory team member
Process adjustment is highly dependent on the transaction	P3	IFRS advisory team member

heterogeneity and the system layout		
Adjustment of consolidation processes is also needed	P5	Accountant
Opposite perspectives in decision making process	P1	Accountant
Different stakeholders, different stakes in the decision-making process	P6	IFRS advisory team member
project-driven but tentative decisions	P5	Accountant
FX effects cannot be budgeted in advance, this can result in increased volatility of MPMs	P3	IFRS advisory team member
Unclear whether the policy choice between View I and View II is possible	P2, P4, P5 and P7	Accountant
Adjustment of IAS 21 will solve the problem	P4	Accountant
Without clarification there is no comparability	P6	IFRS advisory team member
Without clarification, View I is the safest approach	P1 and P3	Accountant, IFRS advisory team member