IFRS 18: Discussion of Recent Tentative Agenda Decisions Issued by the IFRS Interpretations Committee

Extract, IFRS® Discussion Group Report on the Meeting – May 12, 2026

Background

The Group discussed three topics for which the IFRS Interpretations Committee (the Interpretations Committee) issued tentative agenda decisions in November 2025. The Interpretations Committee discussed feedback on these tentative agenda decisions in March 2026. The purpose of the Group's discussion was to raise awareness and determine whether there is any significant diversity in views or additional considerations.

Issue 1: Finalized Agenda Decision on the Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure

Analysis

Background

At its November 2025 meeting, the Interpretations Committee published a tentative agenda decision about how an entity applies IFRS 18 *Presentation and Disclosure in Financial Statements* to classify any gain or loss on a derivative financial instrument in its consolidated statement of profit or loss. The derivative described in the tentative agenda decision is an external forward contract that an entity uses to manage the foreign currency risk of a net liability exposure but is not designated as a hedging instrument under IFRS 9 *Financial Instruments*.

Paragraph B72 of IFRS 18 indicates that the classification of an external derivative that has not been designated as a hedging instrument, but is used to manage identified risks, follows the same classification criteria as derivatives designated in hedging relationships outlined in paragraph B70. However, there are two exceptions noted in paragraph B72. They are:

- If such classification would require grossing up of gains or losses; or
- If such classification would involve undue cost or effort.

Under either exception, the entity would classify the gains and losses in the operating category.

The submission sought to determine whether, under a specific fact pattern, classifying the external derivative's gains or losses in accordance with paragraph B70 of IFRS 18 would result in a grossing up of those gains or losses on the derivative as described in paragraph B72 and therefore would be classified in the operating category.

The submission

The fact pattern in the submission involved a parent entity (Parent P) with three subsidiaries: Subsidiary A, Subsidiary B and Treasury Entity that Parent P consolidates when preparing its consolidated financial statements. Subsidiaries A and B have the same functional currency (LC) and have the following loans denominated in a foreign currency (FC):

- Subsidiary A issued a loan of FC100 to a third party (investing asset); and
- Subsidiary B obtained a loan of FC120 from a different third party (financing liability).

Therefore, the group has a net liability exposure of FC20.

Applying paragraph 49 of IFRS 18, Parent P assesses that, for the purposes of its consolidated financial statements, it does not have a specified main business activity of investing in particular types of assets or of providing financing to customers. Consequently, in its consolidated financial statements, Parent P classifies the interest income from the investing asset in the investing category and the interest expense from the financing liability in the financing category. Applying paragraph B65 of IFRS 18, Parent P classifies any foreign exchange differences in the same category as the interest income and interest expense from those financial instruments.

To manage the foreign currency risk of the group's net liability exposure, Treasury Entity enters into a forward contract with a third party at a notional amount of FC20 to sell local currency and buy foreign currency (external derivative).

Consistent with the group's risk management policy, the purpose of the external derivative is to manage the identified foreign currency risk of the net liability exposure, not the group of gross exposures that make up the net exposure.

Parent P does not designate the external derivative as a hedging instrument under IFRS 9.

Parent P assesses that the undue cost or effort exemption in paragraph B72 of IFRS 18 is not applicable. In particular, Parent P has identified a clear link between the external derivative and the risk it is used to manage.

Treasury Entity also enters into intercompany derivatives (internal derivatives) with:

- Subsidiary A at a notional amount of FC100, for Subsidiary A to sell foreign currency and buy local currency; and
- Subsidiary B at a notional amount of FC120, for Subsidiary B to sell local currency and buy foreign currency.

The submission asked how the entity, applying IFRS 18, classifies any gain or loss arising from the external derivative in its consolidated statement of profit or loss.

Paragraphs B70-B76 of IFRS 18 provide application guidance an entity applies when classifying gains and losses on derivatives and designated hedging instruments.

Paragraph B72 of IFRS 18 requires an entity to classify gains and losses on a derivative that is not designated as a hedging instrument applying IFRS 9, but is used to manage identified risks, in the same category as the income and expenses affected by the risks that the derivative is used to manage. However, if doing so would require the grossing up of gains or losses or involve undue cost or effort, the entity is required to classify all gains or losses on the derivative in the operating category.

Paragraph B74 of IFRS 18 states that "grossing up of gains and losses" might arise from situations in which:

a. an entity uses financial instruments to manage the risks of a group of items with offsetting risk positions; and

b. the risks managed affect line items in more than one category of the statement of profit or loss.

Paragraph B75 of IFRS 18 provides an example in which grossing up of gains or losses on a derivative might arise:

For example, an entity may use a derivative to manage both the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category). In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expenses and the gains or losses on the derivative. However, the entity classifies the foreign exchange differences on the revenue in a different category from the foreign exchange differences on the interest expenses. To present the gain or loss on the derivative in each category, an entity would need to present in each category a larger gain or loss than occurred on the derivative. Applying the requirements in paragraphs B70-B73, an entity shall not gross up the gains or losses in this manner and instead shall classify any gain or loss on the derivative in the operating category.

<u>Key elements of the Interpretations Committee's discussion</u>

The Interpretations Committee's analysis focused solely on the external derivatives and did not address the internal derivatives between the Treasury Entity and Subsidiaries A and B. This is partially because the submission did not ask questions about the internal derivatives but also because paragraph BC6.144 in the Basis for Conclusions on IFRS 9 indicates that risk mitigation is only relevant if the entity transfers a risk to a party outside the reporting entity. Leveraging that guidance, the Interpretations Committee decided not to address the internal derivatives.

The Interpretations Committee discussed how to apply paragraphs B70-B76 of IFRS 18. To do so, an entity first needs to identify the risk(s) a derivative is used to manage. This enables the entity to determine the categories of profit or loss that are affected by that risk and the resulting classification of gains or losses on that derivative. The concept of managing risks with derivatives that are not designated as hedging instruments, nor are they trading or speculative instruments, has been introduced in IFRS 18 for classification.

Paragraphs BC227-BC228 of the Basis for Conclusions on IFRS 18 state, in part, the IASB's rationale for providing classification guidance for derivatives not designated as hedging instruments but used to manage exposures to identified risks:

An entity can also use a derivative to manage an identified risk without designating a hedging relationship for the purposes of IFRS 9. In many cases, the IASB expects that an entity can identify the link between the derivative and the risk it uses the derivative to manage because entities typically enter into derivatives in accordance with approved risk management policies. Risk managers usually monitor and report internally on whether derivatives continue to mitigate the risks being managed. Accordingly, an entity would typically have the information necessary to determine the link between a derivative and the risk the entity uses the derivative to manage. Consequently, the IASB concluded that classifying gains or losses on other derivatives used to manage exposures to identified risks using the same approach as for gains or losses on designated hedging instruments would provide useful information about an entity's risk management activities.

However, stakeholder feedback revealed that, in some cases, identifying gains or losses affected by the risk(s) managed using non-designated derivatives might involve undue cost or effort. For example, an entity's central treasury function might be the counterparty to internal derivatives used for risk management, which are then "externalised" on a net exposure basis. In this example, systems and processes might require changes to be able to identify the gains or losses on the external derivatives that would be applicable to each of the categories. In such cases, the IASB decided to require an entity to classify gains and losses in the operating category

The Interpretations Committee observed that entities typically enter into derivatives used to manage identified risks in accordance with their approved risk management policies. Therefore, an entity is generally expected to be able to identify the risk managed using an external derivative based on facts and circumstances and its approved risk management policy. This appears to implicitly leverage some of the IASB's thinking outlined in the Basis for Conclusions paragraphs above.

In the fact pattern described in the submission, the group has an approved risk management policy that permitted the use of an external derivative to manage the foreign currency risk of the net liability exposure, not the gross exposures (the investing asset and the financing liability).

In the fact pattern described in the submission, Parent P, after determining it does not have any specified main business activities, classifies foreign exchange differences on financial liabilities in the financing category of its consolidated statement of profit or loss.

The entity used the external derivative to manage foreign currency risk of a net liability exposure. Therefore, per the approved risk management policies, applying paragraph B72 of IFRS 18, Parent P is required to classify any gain or loss on the external derivative in the financing category of its consolidated statement of profit or loss, unless doing so would require the grossing up of gains and losses or involve undue cost or effort. Per the fact pattern, Parent P assessed that the undue cost or effort exemption is not applicable.

The agenda decision suggests that the entity's approved risk management policies impact the ability for the gains or losses on an external derivative used to manage identified risks to be eligible for classification in the same category as the related identified risk managed by the derivative.

In the fact pattern in the submission, the net liability position is derived from a financial asset for which income and expenses are classified in the investing category and from a financial liability for which income and expenses are classified in financing category. The primary issue is whether, under this fact pattern, managing the risk of a net liability position arising from a specifically identifiable foreign currency denominated financial asset and a (larger) specifically identifiable foreign currency denominated financial liability would be considered grossing up of gains and losses on a derivative.

Based on the requirements in paragraphs B74-B75 of IFRS 18, the Interpretations Committee observed that the grossing up of gains and losses on a derivative has two implications:

- It does not arise in situations in which an entity manages an identified risk which affects line items in a single category of the statement of profit or loss. In this case, the identified risk is the FC20 net liability for which income and expenses would be solely classified in the financing category.
- It might arise in situations in which an entity manages the risks of a group of items with offsetting risk positions using a derivative and those risks affect line items in more than one category of the statement of profit or loss. That is because, to classify the gain or loss on the derivative in each of the categories affected, the entity would need to present in each category a larger gain or loss than occurred on the derivative. Such an outcome is prohibited by paragraphs B70 and B72 of IFRS 18. **For example, if the group's risk management policy was to instead use the external derivative to manage the foreign currency risk of both the investing asset and the financing liability on a gross basis. These risks would affect line items in the investing category and in the financing category of the consolidated statement of profit or loss. Consequently, classifying gains or losses on the external derivative in these categories would have required the grossing up of gains or losses on the derivative, which is prohibited by paragraph B72 of IFRS 18.** (emphasis added)

The Interpretations Committee observed that, in the fact pattern, the entity uses the external derivative to manage only the net liability foreign currency exposure, which affects a single category of the consolidated statement of profit or loss – the financing category. Therefore, classifying gains or losses on the external derivative in the financing category would not require the grossing up of such gains or losses. As a result, the prohibition in paragraph B72 of IFRS 18 would not apply.

Consequently, the Interpretations Committee concluded that in the fact pattern, the entity is required to classify any gain or loss on the external derivative in the same category as the income and expenses affected by the risks the derivative is used to manage, which is the financing category of its consolidated statement of profit or loss.

The Interpretations Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for the classification of gains or losses on a derivative – in accordance with an entity's risk management policy – that is used to manage an identified risk but is not designated as a hedging instrument under IFRS 9. So, the Interpretations Committee decided not to add a standard setting project to the work plan.

The Group's Discussion

The Group noted that the agenda decision highlights the importance of entities clearly documenting their risk management policies and establishing a clear link between derivatives and identified risks to support income statement classification under IFRS 18. Some Group members think this might represent a shift in practice for derivatives that are not designated as hedges as some entities might need more robust and explicit documentation than they historically maintained. One Group member noted that for larger or more complex entities, such as those managing exposure to multiple foreign currencies, it may be even more onerous to meet the documentation requirements. Another Group member thought it might be challenging for entities to support classification outside the operating category for existing arrangements when historical documentation is incomplete or absent. Overall, the discussion highlighted that judgment will be required, and the nature and extent of supporting evidence may vary depending on the entity's facts and circumstances.

Issue 2: Finalized Agenda Decision on the Scope of the Requirement to Disclose Expenses by Nature

Analysis

Background

At its November 2025 meeting, the Interpretations Committee published a tentative agenda decision about the scope of the requirements in paragraph 83 of IFRS 18. The paragraph requires an entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss to also disclose in a single note:

a. the total for each of depreciation, amortization, employee benefits, impairment of non-financial assets (and reversals) and write-downs of inventories (and reversals); and

b. for each total listed in (a):

    i. the amount related to each line item in the operating category; and

    ii. a list of any line items outside the operating category that also include amounts relating to the total.

The submission sought to determine whether the requirements in paragraph 83 of IFRS 18 apply when an entity presents any expense classified by function in the operating category of the statement of profit or loss, including expenses in paragraph 75(b)-(c) of IFRS 18.

<u>The submission</u>

The submission asks whether the requirements in paragraph 83 of IFRS 18 apply:

- only when an entity presents operating expenses listed in paragraph 75(a)(ii) of IFRS 18 by function in the operating category of the statement of profit or loss; or
- when an entity presents any expense by function in the operating category of the statement of profit or loss, including expenses listed in paragraph 75(b)-(c) of IFRS 18. The request says these expenses might include amounts that have been recognized as part of the carrying amount of an asset, for example, an insurance service expense recognized in the statement of profit or loss might include the amortization of insurance acquisition costs that were previously capitalized as part of insurance contract assets.

Paragraph 75 of IFRS 18 states, in part:

An entity shall present in the statement of profit or loss line items for (see paragraph B77):

a. amounts required by this Standard, namely:

…

ii. operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);

…

b. amounts required by IFRS 9, namely:
    i. interest revenue calculated using the effective interest method;
    ii. impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;
c. amounts required by IFRS 17, namely:
    i. insurance revenue;
    ii. insurance service expenses from contracts issued within the scope of IFRS 17;
    iii. income or expenses from reinsurance contracts held;
    iv. insurance finance income or expenses from contracts issued within the scope of IFRS 17; and
    v. finance income or expenses from reinsurance contracts held.

Paragraph 78 of IFRS 18 states:

In the operating category of the statement of profit or loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of these characteristics (see paragraphs B80–B85):

a. the nature of expenses; or

b. the function of the expenses within the entity.

Paragraph 83 of IFRS 18 states:

An entity that presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss shall also disclose in a single note:

a. the total for each of:

    i. depreciation, comprising the amounts required to be disclosed by paragraph 73(e)(vii) of IAS 16 Property, Plant and Equipment, paragraph 79(d)(iv) of IAS 40 Investment Property and paragraph 53(a) of IFRS 16 Leases;

    ii. amortisation, comprising the amount required to be disclosed by paragraph 118(e)(vi) of IAS 38 Intangible Assets;

    iii. employee benefits, comprising the amount for employee benefits recognised by an entity applying IAS 19 Employee Benefits and the amount for services received from employees recognised by an entity applying IFRS 2 Share-based Payment;

    iv. impairment losses and reversals of impairment losses, comprising the amounts required to be disclosed by paragraphs 126(a) and 126(b) of IAS 36 Impairment of Assets; and

    v. write-downs and reversals of write-downs of inventories, comprising the amounts required to be disclosed by paragraphs 36(e) and 36(f) of IAS 2 [Inventories]; and

b. for each total listed in (a)(i)-(v):

    i. the amount related to each line item in the operating category (see paragraph B84); and

    ii. a list of any line items outside the operating category that also include amounts relating to the total.

<u>Key elements of the Interpretations Committee's discussion</u>

The Interpretations Committee observed that paragraph 83 of IFRS 18 contains no explicit exceptions or exclusions. That means, for example, that the reason for classifying an expense by function (i.e., classifying an expense by function applying an entity's judgment or because of a requirement in an IFRS Accounting Standard) is irrelevant in determining whether an entity is required to apply paragraph 83.

Therefore, the Interpretations Committee concluded that paragraph 83 of IFRS 18 applies when an entity presents any line item comprising expenses classified by function in the operating category of the statement of profit or loss, including expenses listed in paragraph 75(b)-(c) of IFRS 18 that are classified by function.

The Interpretations Committee observed that, as paragraph B84 of IFRS 18 states, the amounts disclosed in accordance with paragraph 83 of IFRS 18 need not be the amounts recognized as an expense in the period. The amounts disclosed could include amounts that have been recognized as part of the carrying amount of an asset. If an entity applying paragraph 83(b) of IFRS 18 discloses amounts that are not the amounts recognized as an expense in the period, the entity is required to provide a qualitative explanation of that fact, identifying the assets involved. Note 1 in paragraph IE7 of the Illustrative Examples for IFRS 18 shows the application of the applicable disclosure requirements, including paragraph B84 of IFRS 18.

The Group's Discussion

Several Group members noted that the disclosure of expenses by nature may be challenging to prepare, particularly for more complex entities. Therefore, they suggested that entities should plan early and begin implementing any necessary changes as soon as possible to ensure they have the systems and processes in place to capture the necessary information to provide comparative disclosures. One Group member highlighted that entities should review all applicable guidance to understand the requirements, including paragraph 74 of IFRS 18, paragraph B84 in the application guidance, and paragraph IE7 in Part I of the Illustrative Examples that accompany IFRS 18. Some Group members noted that the disclosure of expenses by nature might not reconcile to an entity's statement of profit or loss, which may not be intuitive to users. They noted that entities are required to explain these differences qualitatively and should consider additional quantitative disclosures.

Issue 3: Presentation of Taxes or Other Charges that Are Not Income Taxes within the Scope of IAS 12 *Income Taxes*

Analysis

Background

At its November 2025 meeting, the Interpretations Committee discussed whether an entity applying IFRS 18 is permitted to present taxes or other charges that are not income taxes within the scope of IAS 12:

- in the "income tax expense or income" line item of the statement of profit or loss required by paragraph 75(a)(iv) of IFRS 18; or
- in the income taxes category of the statement of profit or loss.

The submission

The Interpretations Committee was asked to address this issue because it was informed of different views about whether an entity may present taxes or other charges that are not income taxes within the scope of IAS 12 in the line item "income tax expense or income" required by paragraph 75(a)(iv) of IFRS 18 or as an additional line item in the income taxes category of the statement of profit or loss. Examples of charges that this interpretation may impact include tonnage taxes, production-based royalty payments and hybrid taxes, such as zakat.

Key elements of the Interpretations Committee's discussion

The Interpretations Committee previously discussed tonnage taxes and production-based royalty payments, and issued the following agenda decisions in prior years under current IFRS Accounting Standards:

- Presentation of payments on non-income taxes (IAS 1 and IAS 12); and
- Classification of tonnage taxes (IAS 12).

The Interpretations Committee subsequently assessed both of these previously issued agenda decisions to determine if any amendments were necessary to align them with IFRS 18. The proposed amendments to those agenda decisions are outside the scope of this discussion. However, it is important to be aware that various Interpretations Committee agenda decisions have been (or will be) amended or withdrawn to conform with IFRS 18.

The Interpretations Committee's discussion focused on zakat, which is a hybrid tax. Although zakat is not used in Canada, it is a charge levied by certain governments on entities operating in those countries, including but not limited to Saudi Arabia. Zakat is calculated using a hybrid model, with net income or net assets-based measures used as a basis of its calculation.

Paragraph 67 of IFRS 18 states: "An entity shall classify in the income taxes category tax expense or tax income that is included in the statement of profit or loss applying IAS 12 *Income Taxes*, and any related foreign exchange differences."

Paragraph 75(a)(iv) of IFRS 18 requires an entity to present in the statement of profit or loss line items for amounts required by the standard – namely, income tax expense or income.

The Interpretations Committee concluded that, applying IFRS 18, an entity is not permitted to present taxes or other charges that are not tax income or tax expense applying IAS 12:

a. in the income tax expense or income line item of the statement of profit or loss required by paragraph 75(a)(iv) of IFRS 18; or

b. in the income taxes category of the statement of profit or loss.

The Interpretations Committee also concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity applying IFRS 18 to determine how it presents in the statement of profit or loss taxes or other charges that are not tax expense or tax income applying IAS 12.

During its discussions, the Interpretations Committee considered the implications of the tentative agenda decision for hybrid taxes like zakat. While a majority of the Interpretations Committee members agreed that the current wording of IFRS 18 enabled them to reach the conclusion noted above, the Interpretations Committee recommended that the IASB consider whether a limited-scope project may be necessary to address the accounting for hybrid taxes like zakat.

The IASB has not discussed the tentative agenda decision yet, so the final outcome is not yet known. The IASB may approve the tentative agenda decision or defer its approval. Any decision the IASB makes regarding the Interpretations Committee's recommendation may or may not be tied to the decision around whether or not to finalize the tentative agenda decision. The purpose of this discussion was not to discuss the IASB's possible next steps but to raise awareness of this matter and its status.

The Group's Discussion

Some Group members noted that paragraph 67 of IFRS 18 requires entities to classify in the income taxes category tax expense or tax income that is included in the statement of profit or loss applying IAS 12. They observed that entities sometimes apply IAS 12 by analogy to items that are not within its scope when no IFRS Accounting Standard specifically applies. Since paragraph 67 of IFRS 18 refers to amounts included in the statement of profit or loss "applying" IAS 12 rather than "within the scope" of IAS 12, the Group members noted that entities should include in the income taxes category amounts for which an entity applies IAS 12 by analogy. A common example in Canada is investment tax credits (ITCs). Group members noted that entities typically apply either IAS 12 or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, depending on the facts and circumstances. A Group member noted that when an entity applies IAS 20 to account for an ITC, it should classify the income and expenses related to the ITC in the operating category. Some Group members also observed that this may require entities to reassess historical classifications for certain tax-related items. One Group member noted this tentative agenda decision highlights that the operating category is a residual category under IFRS 18 and that any expense that does not meet the criteria to be included in another category must be classified in the operating category.

Overall, the Group's discussion raised awareness of three topics for which the Interpretations Committee issued tentative agenda decisions in November 2025. No further actions were recommended to the AcSB.