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Update on the IFRS Interpretations Committee’s activities

Objective and Introduction

- 1 The objective of this paper is to provide, for information purposes, a summary of the main open issues discussed by the IFRS Interpretations Committee (the ‘IFRS IC’ or the ‘Committee’).
- 2 The paper only focuses on the IFRS IC issues that are still ‘open’ at the date of the summary, that is, matters that have not yet led to a final decision by the IFRS IC (this paper does not provide detailed information on the IASB projects where input is being sought from IFRS IC members).
- 3 This presentation raises EFRAG FR TEG’s and EFRAG CFSS’s awareness of issues being discussed at the IFRS IC and possible interactions with EFRAG’s commenting activities and future standard setting. The session is not intended, however, to respond to the IFRS IC tentative decisions. Therefore, the paper does not contain the EFRAG Secretariat’s initial views on the issues and does not seek EFRAG FR TEG’s nor EFRAG CFSS’s technical assessment on the matters.
- 4 If EFRAG FR TEG or EFRAG CFSS express the wish to further discuss any of the presented issues, a session could be organised at a future meeting. EFRAG FR TEG-CFSS members can also express the need to participate in the IASB’s outreach on the topics listed.

Overview of IFRS IC’s current activity

- 5 Below is an overview of the IFRS IC’s current activities.

Project/Topic (including hyperlinks to the IASB website for each item)	Related Standards	Current status	Last IFRS IC meeting discussed	Next milestone	Next milestone expected date
Initial consideration					

Update on the activity of the IFRS Interpretations Committee

Project/Topic (including hyperlinks to the IASB website for each item)	Related Standards	Current status	Last IFRS IC meeting discussed	Next milestone	Next milestone expected date
Classification of a Foreign Exchange Difference from an Intragroup Monetary Liability (or Asset)	IFRS 18	Initial consideration	16 Sep 2025	Tentative agenda decision	Not specified
Economic Benefits from Use of a Battery under an Offtake Arrangement (2 submissions)	IFRS 16	Initial consideration	16 Sep 2025	Tentative agenda decision	Not specified
Open for consultation					
Determining and Accounting for Transaction Cost	IFRS 9	Tentative agenda decision in June 2025, open for comments till 6 October 2025	25 June 2025	Tentative agenda decision feedback	November 2025
Embedded Prepayment Option	IFRS 9	Tentative agenda decision in June 2025, open for comments till 6 October 2025	25 June 2025	Tentative agenda decision feedback	November 2025
Updates to Agenda Decisions for IFRS 18	IFRS 18	Tentative agenda decision in June 2025, open for comments till 6 October 2025	25 June 2025	Tentative agenda decision feedback	November 2025
Input on IASB's project					
Business Combinations— Disclosures, Goodwill and Impairment	IFRS 3, IAS 36	Collecting feedback on: - aspects of the proposed exemption from disclosing some items of information in some situations; - aspects of the proposal to require an entity to include restructuring and asset enhancement cash flows when determining value in use.	16 Sep 2025	Decide Project Direction	H2 2026
Statement of Cash Flows and Related Matters	IAS 7	Collecting feedback on: - initial analysis of the classification issues identified during outreach; - specific items for which feedback was that there is inconsistent	16 Sep 2025	Decide Project Direction	Q4 2025

Project/Topic (including hyperlinks to the IASB website for each item)	Related Standards	Current status	Last IFRS IC meeting discussed	Next milestone	Next milestone expected date
		application of the classification requirements in IAS 7.			

Initial consideration

Classification of an Exchange Difference from an Intragroup Loan (IFRS 18 Presentation and Disclosure in Financial Statements)

Issue and background

- 6 The submitter raised an issue regarding the classification of foreign exchange (FX) differences in the consolidated statement of profit or loss, specifically when these differences arise from an intragroup monetary liability (such as a loan between a parent and subsidiary with different functional currencies) and when the related income and expenses are eliminated during consolidation.
- 7 The issue stems from IFRS 18 Presentation and Disclosure in Financial Statements, paragraph B65, which generally requires FX differences to be classified in the same category as the income and expenses from the items that gave rise to them. However, when these intragroup income and expenses are eliminated on consolidation, the "same category" reference becomes ambiguous, leading to diverse interpretations among preparers. The submitter highlighted that such intragroup loans are common, the resulting FX differences can be material, and there's a perceived lack of explicit guidance leading to inconsistent application.
- 8 Some issuers are ready to apply IFRS 18 early or intend to reflect the IFRS 18 requirements from 1 January 2026 in order to have comparative information for 2027. The IASB did not perform outreach on this submission and instead discussed the topic with some selected stakeholders that are ready to apply the requirements within short notice. Therefore, a pragmatic approach for IFRS 18 in relation to the understanding of the widespread effect of such matters from the evidence referred to in the submission and from discussions with stakeholders was followed. This supports the urgency of providing guidance for the first time adoption of IFRS 18.

IASB Staff analysis and recommendations

- 9 The IASB staff's analysis identified two reasonable ways to classify the exchange difference under IFRS 18:
- 10 View I (Similar to View 1 in the submission): The parent would classify the exchange difference in the same category in which the income and expenses from the intragroup

loan would have been classified if they had not been eliminated on consolidation. This approach considers that eliminating income and expenses is akin to offsetting them for presentation, meaning they still "exist" for the purpose of categorisation. If this approach would involve undue cost or effort, the exchange difference would then be classified in the operating category.

- 11 View II (Similar to View 4 in the submission): The parent could reasonably conclude that since the income and expenses from the intragroup loan have been eliminated and are not presented, there is no "same" category to refer to under paragraph B65 of IFRS 18. In this scenario, the exchange difference would be classified by default in the operating category as per paragraph 52 of IFRS 18. A key question in relation to view II is the understanding of elimination in IFRS 10 as offsetting by referencing to the framework and guidance in IAS 21.
- 12 The IASB staff disagreed with other views that suggested classification based on the nature of the transaction as solely financing or investing, or allowing an accounting policy choice among all five views, deeming them inappropriate applications of the requirements.
- 13 The IASB staff's recommendation was not to add a standard-setting project to the work plan. While acknowledging the prevalence and potential materiality of the issue and the possibility of diversity, they concluded that the expected benefits of standard-setting would not outweigh the costs. They noted that even a new standard might not eliminate all diversity due to the "undue cost or effort" exemption and that undertaking standard-setting now could disrupt current IFRS 18 implementation efforts. Instead, the IASB staff recommended publishing a tentative agenda decision to explain how the existing IFRS 18 requirements apply to this fact pattern, without creating new standards.

Economic Benefits from Use of a Battery under an Offtake Arrangement (IFRS 16 Leases)

Issue and background

- 14 In the fact pattern (two submissions), a battery owner and an electricity retailer enter into a battery offtake arrangement in a gross pool electricity market. The battery owner keeps custody of the battery but must operate it fully under the retailer's instructions, which cover 100% of its capacity. The retailer pays a fixed fee for the right to use the battery, while the owner transacts with the market operator at spot prices (i.e. buying and selling energy and charging and discharging the battery) and passes cash flows to the retailer. In substance, the owner operates the battery on behalf of the retailer and receives a fixed payment. The battery cannot be substituted.
- 15 The question is whether this arrangement constitutes a lease under IFRS 16. For a lease, the customer must have (a) the right to obtain substantially all economic benefits from use

of the asset, and (b) the right to direct its use. The submissions assume criterion (b) is met, and therefore it focuses on whether criterion (a) is met—whether the retailer obtains substantially all the economic benefits from the battery.

IASB Staff analysis and recommendations

- 16 According to IFRS 16 paragraph B21, economic benefits from an asset include exclusive use of it during the contract period. In the fact pattern, the electricity retailer has exclusive rights to the entire battery capacity and pays for its use regardless of charging or discharging.
- 17 The primary economic benefit of the battery lies in its storage capability, similar to a warehouse, rather than in the electricity itself (i.e. which the battery cannot generate). By directing when to charge and discharge, the retailer benefits from price differentials in the electricity market.
- 18 Therefore, the IFRS IC staff was of the view that the retailer has the right to obtain substantially all the economic benefits from the battery, as these stem from its storage capacity and the retailer's exclusive control over its use.
- 19 Submission 2 (View 2) suggested that the fact pattern should be split into two separate contracts—the offtake arrangement and the electricity sale/purchase transactions—arguing that IFRS 16 paragraph B2 does not require combining them because the contracts involve different counterparties and were not entered into at the same time.
- 20 The IFRS IC staff disagreed with this view. They emphasised that the analysis should focus only on the offtake arrangement between the retailer and the battery owner, since the retailer is not a party to the electricity sale/purchase transactions. Those transactions are carried out by the battery owner solely under the retailer's instructions. Consequently, the staff concluded that IFRS 16 paragraph B2 is not applicable to the fact pattern.
- 21 The submissions asked whether the battery fact pattern should be analysed in the same way as the windfarm fact pattern from the IFRS IC's December 2021 Agenda Decision which the IFRS IC concluded there was no lease because the retailer only obtained renewable energy credits and had no rights to the electricity produced.
- 22 The IASB Staff was of the view that this fact pattern differs because the battery provides storage (not generation), and the retailer has exclusive rights to its full capacity.
- 23 The IFRS IC Staff recommended that the IFRS IC not add a standard-setting project to the work plan but publish tentative agenda decision that explains how a customer (electricity retailer) applies the requirements in IFRS 16 to the fact pattern described in the submission.

Input to IASB

Business Combinations—Disclosures, Goodwill and Impairment

Issue and background

- 24 At its June and July meetings the IASB continued discussing feedback received on the ED, in particular the proposed exemption to disclosing some information under IFRS 3 Business Combinations and on including restructuring and asset enhancement cashflows when calculating value in use ('VIU) under IAS 36 Impairments of Assets. The IASB decided that the IASB staff should consult further on these proposals. Therefore, the IASB staff will be consulting on these topics with IFRS IC and ASAF in October 2025.
- 25 In particular the IASB is seeking views on:
- (a) a possible refinement to the scope of the proposed exemption in the ED;
 - (b) developing examples of situations in which an entity can apply the exemption; and
 - (c) developing an example that illustrates including of the restructuring and asset enhancement cashflows when calculating VIU.

IASB Staff analysis and recommendations

Exemption

- 26 The ED proposed to exempt an entity from disclosing some information in specific circumstances. Under the ED, an entity can use the exemption if disclosing information can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination.
- 27 One of the concerns reported by respondents was that the proposed exemption should cover situations in which disclosure of information would breach statutory legal/regulatory requirements.
- 28 Another concern was that the proposed exemption might not - but should - cover situations that would expose the entity to social or operational risks (including those arising from restructuring initiatives) - for example, loss of a key supplier or key employees. Respondents considered that the exemption as currently worded might not apply to such situations.
- 29 In the IASB staff initial view, the IASB should consider refining the scope of the exemption to allow entities to apply it in situations in which disclosing the information could result in:
- (a) a breach of legal or regulatory requirements; and
 - (b) negative social and operational consequences.
- 30 In particular the wording of the exemption could be refined by:

- (a) changing the wording of the exemption to, for example, allow an entity to not disclose some of the required information if doing so can be expected to prejudice seriously 'the success of a business combination'; and
 - (b) specifying that the achievement of an acquisition-date key objective is one-but not the only- example of the success of a business combination.
- 31 In the IASB staff initial view, the IASB should not extend the exemption to cover:
- (a) situations in which disclosing the information would affect an entity's negotiating position for future business combinations (beyond what would already be covered by the proposed exemption);
 - (b) breaches of non-disclosure / confidentiality agreements;
 - (c) litigation risk arising from some situations; and
 - (d) other situations suggested by respondents to the ED.
- 32 The IASB staff notes that the exemption is by nature designed to be highly entity and fact specific and consequently it would be difficult to develop examples that are generic and relevant enough to apply to a large number of entities across multiple jurisdictions. Developing specific examples (like an example of a 'product launch') could result in application by analogy and thus expanding the use of the exemption beyond its intended purpose.
- 33 Nonetheless, the IASB staff identified two cases which might be generic enough to allow the IASB to develop examples:
- (a) product launch; and
 - (b) breach of a statutory/ legal requirement.
- 34 The example of the product launch is reproduced in Appendix A of the [IASB agenda paper AP4A](#).
- 35 The IASB is asking the following questions:
- (a) Question 1 - Do you have examples of situations in which disclosing performance and expected synergy information would breach statutory legal / regulatory requirements in your jurisdictions? Do you think an entity should be exempt from disclosing information in these situations?
 - (b) Question 2 - Do you have examples of negative social or operational consequences (other than those discussed in Question 1) that would result from disclosing performance and expected synergy information for a business combination that

would not already be captured by the exemption? Do you think an entity should be exempt from disclosing information in these situations?

- (c) Question 3 - Do you have any suggestion to refine the scope of the exemption in a way that would accommodate the examples you have identified in Question 1 and Question 2 without unduly extending the scope to other situations? Do you think our suggestion on refining the wording of the exemption would effectively address this issue?

Calculation of VIU

- 36 Applying IAS 36, the recoverable amount of an asset or cash-generating unit (CGU) is the higher of its fair value less costs of disposal ('FVLCD') and its VIU.
- 37 In calculating VIU, paragraph 44 of IAS 36 currently requires future cash flows to be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
- (a) future restructuring to which an entity is not yet committed; or
 - (b) improving or enhancing the asset's performance.
- 38 The IASB ED proposed to remove the requirement to exclude uncommitted future restructuring and asset enhancement cash flows from VIU. The IASB argued that the proposal would reduce complexity and make the impairment test less prone to error because estimates of VIU would be based more closely on cash flow projections that are prepared, monitored and used internally for decision-making.
- 39 The feedback received showed diverse views:
- (a) many respondents agreed with the proposal for reasons consistent with those considered by the IASB. Some who agreed, including EFRAG, suggested providing further application guidance such as defining 'current condition' and 'current potential' of an asset or adding illustrative examples;
 - (b) many respondents disagreed with the proposal. Many of these respondents said removing this requirement could increase the level of judgement required to calculate VIU and increase management over-optimism. Some who disagreed said the proposal could worsen the problem of impairment losses on goodwill sometimes being recognised too late.
- 40 At its July 2025 meeting, the IASB members acknowledged that there could be benefits and costs associated with updating or developing examples to help stakeholders better understand and apply the concept of an asset's current potential. However, the IASB

members also acknowledged that any example would, by its nature, be limited in terms of the facts and circumstances it can illustrate. This could lead to further questions and application challenges when entities have fact patterns and circumstances that differ from those illustrated within the example.

- 41 The IASB staff developed an example (see Appendix A of the [IASB agenda paper AP4B](#)) to help stakeholders better understand and apply the concept of an asset's current potential.
- 42 The IASB is asking the following questions:
- (a) Question 1 - Considering the benefits and costs, do you think the IASB should develop an example that illustrates cash flows that reflect an asset's current potential as well as cash flows that do not reflect such potential?
 - (b) Question 2 - Would an example similar to that included in Appendix A to this paper help stakeholders better understand and apply the concept of an asset's current potential? Why or why not? If not, what changes would you suggest and why?

Statement of Cash Flows

Issue and background

- 43 In May 2025, the IASB considered the scope of the project on Statement of Cash Flows and Related Matters and tentatively decided to include the following topics in the project plan:
- (a) the disaggregation of cash flow information in the financial statements;
 - (b) reporting of information about non-cash transactions in the financial statements;
 - (c) the transparency of information about cash flow measures not specified in IFRS Accounting Standards;
 - (d) the consistent application of the requirements in IAS 7 for classifying cash flows as operating, investing, and financing;
 - (e) the consistent application of the definition of 'cash equivalents'.
- 44 In this regard, on the topic of classification of cash flows, the IASB Staff is seeking IFRS IC feedback on classification issues identified during outreach and on specific items for which feedback was that there is inconsistent application of the classification requirements in IAS 7.

IASB Staff initial analysis and recommendations

- 45 To support its work on the project, the IASB Staff would like to better understand the underlying fact patterns and gather IFRS IC members' feedback on:

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- (a) fact patterns for which the IASB Staff have a particular understanding about the factors which might contribute to inconsistent application of the requirements in IAS 7 (such as variable consideration, payments related to derivatives, payments related to the purchase of an asset on deferred payment terms);
- (b) fact patterns raised by IC members and other stakeholders (such as receipts and payments related to factoring, foreign exchange differences, cash flows related to the in-substance purchase of an asset vs. a lease and cash flows related to assets held for rental) to be able to determine whether the issues relate to inconsistent application of IAS 7 requirements or it is a general IFRS application issue.

Next steps

46 The EFRAG Secretariat will continue to monitor the IFRS IC's discussions.

Questions for EFRAG FR TEG and CFSS

- 47 Does EFRAG FR TEG and CFSS have any comments on the above IFRS IC topics? Are there topics which EFRAG FR TEG and CFSS consider are significant and where standard setting is needed? Please explain.