

June 2011

Project Summary and Feedback Statement

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

At a glance

The International Accounting Standards Board (IASB) issued *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 Presentation of Financial Statements)* in June 2011.

The main change these amendments will make to practice is that entities will be required to group items presented in other comprehensive income (OCI) on the basis of whether they would be reclassified to (recycled through) profit or loss at a later date, when specified conditions are met. The amendments do not address which items are presented in OCI or which items need to be reclassified.

The IASB began the project in 2009 as part of its joint work with the US national standard-setter, the Financial Accounting Standards Board (FASB), to create a common set of high quality global accounting standards.

As a result of this joint work, the boards aligned the requirements in International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) for the presentation of items in OCI. The result is improved consistency and clarity in the presentation of those items.

What is OCI?

IAS 1 defines a complete set of financial statements as comprising statements of financial position, comprehensive income (often referred to as P&L or the income statement), cash flows and changes in equity, plus the related explanatory notes.

IAS 1 requires all income and expense items to be presented in the statement of comprehensive income. These items are presented in the profit or loss section of the statement unless an IFRS requires it to be presented in a separate section called other comprehensive income (OCI).

Examples of items that IFRSs require or permit to be presented in OCI are:

- Foreign currency translation adjustments on foreign subsidiaries
 - Actuarial gains and losses arising on defined benefit plans
 - Revaluations of property, plant and equipment
 - Changes in fair value of financial instruments in a cash flow hedge
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Why we undertook this project

Many IFRSs make use of OCI. However, IFRSs do not distinguish between different items in OCI. In addition, OCI items are presented very differently in the financial statements prepared in accordance with IFRSs and US generally accepted accounting principles (GAAP).

Distinguishing between different items in OCI

Existing requirements require entities to present profit or loss and OCI together within the statement of comprehensive income or in separate but consecutive statements.

The IASB believes that items presented in profit or loss and OCI provide important information about the financial performance of an entity.

However, currently a range of very different items are presented in OCI—the effect of changes in pension obligations, fixed asset revaluations, cash flow hedges, changes in the carrying amount of strategic equity investments, foreign currency translation differences and, while IAS 39 *Financial Instruments: Recognition and Measurement* remains effective, changes in the carrying value of ‘available-for-sale’ securities.

The lack of distinction between different items in OCI reflects the absence of agreement among users and preparers about which items should be presented in OCI and which should be part of profit or loss. For instance, a common misunderstanding is that the split between profit or loss and OCI is on the basis of realised versus unrealised gains. This is not, and has never been, the case.

This lack of a consistent basis for determining how items should be presented has led to the somewhat inconsistent use of OCI in IFRSs.

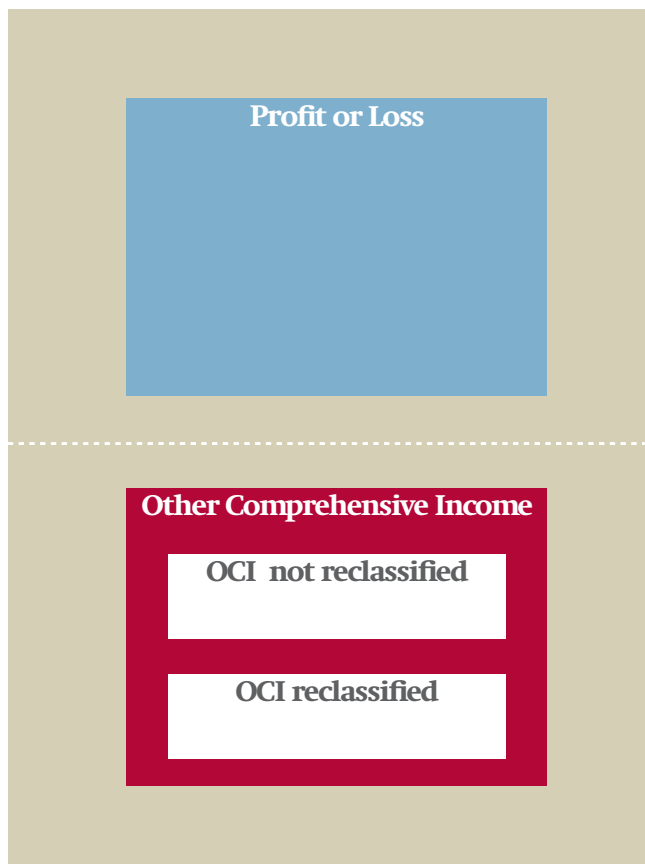
Feedback suggests that it would be difficult to develop a more consistent basis for identifying when an item should be presented in OCI. However, the IASB agreed with users’ requests for greater clarity in the presentation of OCI items as expressed by many respondents to the discussion paper on financial statement presentation.

To address this issue within this limited scope project, the IASB proposed to group items presented in OCI on the basis of whether they might at some point be reclassified ('recycled') from OCI to profit.

By requiring items of OCI to be grouped on this basis their potential effect on profit or loss in future periods will be clearer.

Whether the IASB will address the more fundamental issues relating to OCI in a future project will also depend on the views it receives on its forthcoming consultation on the IASB's future work programme.

Amended presentation requirements



Enhanced comparability with US GAAP

US GAAP and IFRSs differ on the presentation of OCI items.

US GAAP does not require OCI items to be presented in the statement of comprehensive income but allows them to be incorporated in the statement of changes in equity or in the notes. This makes it difficult to identify and understand the nature of those gains and losses. These different approaches also make it difficult for users to compare financial statements prepared in accordance with US GAAP and those prepared in accordance with IFRSs.

The FASB has amended US GAAP to require profit or loss and other comprehensive income to be presented in either one statement or two continuous statements, with items of profit or loss presented separately. The changes to IAS 1 and US GAAP will make it easier for users to compare the financial statements prepared in accordance with US GAAP with those prepared in accordance with IFRSs.

Summary of the main changes from the exposure draft

The exposure draft *Presentation of Items of Other Comprehensive Income* proposed that all items of income and expense should be presented in a continuous statement of profit or loss and other comprehensive income with two sections—profit or loss and OCI. The FASB proposed the same requirement.

As a result of this project, the FASB decided to amend its existing requirements and introduce the separate presentation of OCI items.

However, in finalising its requirements the FASB decided not to require a single statement. Instead, it decided to allow profit or loss and OCI to be presented in separate, but consecutive, statements. One of the primary objectives of the project was to align the reporting of OCI in IFRSs and US GAAP. In the light of the decision by the FASB, the IASB decided to retain the option to present items of profit or loss in a separate statement because requiring a single statement would introduce a new difference between IFRSs and US GAAP.

IAS 1 will therefore continue to allow flexibility in the presentation of items of income and expense in the statement of profit or loss and other comprehensive income. In line with current IFRSs the statement of profit or loss and OCI must be presented in two sections, profit or loss and other comprehensive income. Entities will also continue to have an option to present items of profit or loss in a separate statement of profit or loss.

Due process and outreach activities

During 2009 and 2010 the IASB and the FASB developed proposals to replace IAS 1 *Presentation of Financial Statements* (and the equivalent requirement in US GAAP). In 2009 the boards decided to develop the proposals for presentation of OCI in a separate project.

In October 2008 the IASB and the FASB published for public comment a discussion paper, *Preliminary Views on Financial Statement Presentation*. In that discussion paper the boards proposed that entities should be required to present comprehensive income in a single statement of comprehensive income.

In May 2010 both boards published an exposure draft *Presentation of Items of Other Comprehensive Income*. The exposure draft had a five-month comment period, with comments due by 30 September 2010.

Extensive outreach was conducted before the publication of the exposure draft and also during the comment period.

The boards received 139 comment letters, a summary of which was presented to the boards in October 2010. An additional analysis of the comments received was considered by the boards at their public meetings in November 2010.

As a result the boards decided that additional public round tables to discuss the proposals were not necessary. The boards had already received views on the benefits of a single statement as part of the financial statement presentation project. In addition, the proposals were very narrow in their scope.

The financial statement presentation project's working group was consulted on the amendments.

Feedback statement

The IASB received broad support for the proposals to group items of OCI into items that may be reclassified to profit or loss and those that will not be reclassified. Respondents also generally supported the proposed change to the title of the statement presenting profit or loss and OCI to ‘statement of profit or loss and other comprehensive income’.

However, a majority of the respondents did not agree with the proposal to require the presentation of profit or loss and OCI within one continuous statement and not allowing the separate presentation of profit or loss.

The final requirements reflect the main suggestions made to us during the consultation process.

The pages that follow outline the more significant matters raised with us and how we responded.

Establishing a distinction between different OCI items

The proposals required items presented in OCI to be grouped on the basis of whether they could be reclassified subsequently to profit or loss.

The proposal was that items required or permitted to be presented in OCI should be grouped into two groups:

- items that will not be reclassified subsequently to profit or loss; and
- items that will be reclassified subsequently to profit or loss when specific conditions are met.

The objective of this change was to make clearer the effects these items may have on profit or loss in the future.

Respondents' comments

Respondents generally agreed that this change was an improvement in the presentation of OCI items and would increase users' awareness of the effects that OCI items may have on profit or loss in future periods.

However, many respondents pointed out that there were no principles governing which OCI items should be reclassified to profit or loss and when they should be reclassified.

Our response

The IASB confirmed that items presented in OCI should be grouped on the basis of whether they may be reclassified subsequently to profit or loss.

The IASB also acknowledges that there are no principles for determining which items should be presented in OCI or whether items presented in OCI should be reclassified to profit or loss. However, this issue was not within the scope of this project, which focused on presentation.

Whether the IASB will be addressing this issue in a future project will also depend on the outcome of the forthcoming consultation on its future work programme.

Clarifying presentation of OCI

The IASB proposed to require all items of income and expense to be presented in a continuous statement with two sections, profit or loss and OCI, thereby removing the option to present profit or loss and OCI in two statements.

The IASB made this proposal because it thinks allowing entities to present items in profit or loss and OCI in separate statements creates an unnecessary level of complexity. More importantly, it may make it difficult for users to understand what those statements purport to represent and how they interact with each other.

Respondents' comments

Most respondents disagreed with the IASB's proposals. They urged the IASB to defer any changes to the statement of comprehensive income until it has completed a project to revise the guidance on which items should be presented in OCI. They also argued that a single statement would undermine the importance of profit or loss by making it a subtotal and also feared that requiring all items of income and expense to be presented in a single statement was the first step towards eliminating the notion of profit or loss. Lastly, they expressed the view that the items that are presented in OCI are different from items presented in profit or loss and they would therefore prefer either to keep the presentation of profit or loss separate from OCI or to allow management to choose to present them either in a single statement or in two statements.

Our response

The IASB decided to keep the option to present items of profit or loss in a separate statement. Profit or loss will be presented separately and will remain the required starting point for the calculation of earnings per share.

The IASB acknowledges that it has not set out the conceptual basis for how to determine whether an item should be presented in OCI or in profit or loss. This issue was outside the scope of this project, which focused on presentation, and has therefore not been addressed. However, the IASB is about to start consultations on the future work programme. The consultation document identifies OCI as a potential topic for consideration for its future work plan.

Presentation of income tax on OCI items

The IASB proposed requiring income tax on items presented in OCI to be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified, if those items are presented before tax.

It also proposed to retain the flexibility in the presentation of income tax on OCI items that IAS 1 allows. Items in OCI could therefore be presented either before tax or net of tax.

Respondents' comments

Respondents generally agreed with this proposal and also with the proposals to keep the option to present items of OCI before or net of income tax.

Our response

The IASB confirmed the proposals for how income tax on items presented in OCI should be presented.

Notes

Important information

This Project Summary and Feedback Statement has been compiled by the staff of the IFRS Foundation for the convenience of interested parties.

The views expressed within this document are those of the staff who prepared the document. They do not purport to represent the views of the IASB and should not be considered as authoritative. Comments made in relation to the application of IFRSs or US GAAP do not purport to be acceptable or unacceptable application of IFRSs or US GAAP.

Official pronouncements of the IASB are available in electronic form to eIFRS subscribers. Printed editions of IFRSs are available for ordering from the IASB website at www.ifrs.org.

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