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**International  
Accounting Standards  
Board**

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*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting: 14 December 2006, London**  
**Project: Financial Statement Presentation (Phase B)**  
**Subject: Other Comprehensive Income (Agenda Paper 15A)**

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### **INTRODUCTION**

1. The purpose of this memorandum is to present the Boards with alternatives for presenting other comprehensive income (OCI) that would serve as an interim presentation format until the Boards can achieve their long-term goal of eliminating the separate presentation of OCI items, as expressed at the October joint meeting.
2. This memorandum addresses the following issues related to the presentation of OCI:
  - Issue 1: Presentation of Other Comprehensive Income on the Statement of Comprehensive Income
  - Issue 2: Short and Long-Term Subcategories on the Statements of Comprehensive Income and Cash Flows

## **ISSUE 1: PRESENTATION OF OTHER COMPREHENSIVE INCOME ON THE STATEMENT OF COMPREHENSIVE INCOME**

### **Background**

3. At the October joint meeting, the Boards decided that the preliminary views (discussion paper) should present principles and guidance for presentation of information in the complete set of financial statements that reflects their long-term goal of classifying items in OCI in a manner consistent with those principles. The Boards noted that application of the cohesiveness principle would preclude presentation of a separate OCI category. However, the Boards decided that, as an interim step, the final standard produced by this project may need to continue to permit the presentation of OCI items in a separate section of the statement of comprehensive income.
4. Recognizing that changes to current standards that require recognition of an amount in OCI will need to be made to achieve their long-term goal, the Boards directed the staff to develop a presentation format that can be used in the interim (until the long-term goal can be achieved). (For the Boards' convenience, a listing of current OCI items, including whether or not they are recycled, is included as an Appendix to this memorandum.)

### **Possible Alternatives**

5. The staff developed the following alternatives for presenting OCI items on the statement of comprehensive income (they are illustrated on the following page):
  - a. **Alternative A**—Present OCI items within the functional section or category to which the events or transactions relate and recycle (if necessary) within the section or category.
  - b. **Alternative B**—Presentation is the same as Alternative A, except that each category or section that has an associated OCI item would have a subcategory to distinguish OCI items from non-OCI items.
  - c. **Alternative C**—Present OCI items in a separate section (that would be presented with equal prominence as the business, financing, income tax, and discontinued operations sections). OCI items that are recycled would be recycled among sections and categories. The OCI section would include operating, investing, and financing categories. The OCI section would have a subtotal like the other sections.

- d. **Alternative D**—Presentation is the same as Alternative C, except that OCI items would be presented on a net of tax basis. This presentation is the most consistent with the current presentation of OCI items and the sum of the business, financing, discontinued operations, and income taxes sections would equal net income, as currently presented.

Alternative A			Alternative B			Alternative C			Alternative D		
Statement of Comprehensive Income			Statement of Comprehensive Income			Statement of Comprehensive Income			Statement of Comprehensive Income		
	2006	2005		2006	2005		2006	2005		2006	2005
	(in millions)			(in millions)			(in millions)			(in millions)	
<b>BUSINESS</b>			<b>BUSINESS</b>			<b>BUSINESS</b>			<b>BUSINESS</b>		
<b>Operating Income</b>			<b>Operating Income</b>			<b>Operating Income</b>			<b>Operating Income</b>		
Net sales	11,292	10,055	Net sales	11,292	10,055	Net sales	11,292	10,055	Net sales	11,292	10,055
Costs and expenses:			Costs and expenses:			Costs and expenses:			Costs and expenses:		
Cost of products sold	(2,815)	(2,446)	Cost of products sold	(2,815)	(2,446)	Cost of products sold	(2,815)	(2,446)	Cost of products sold	(2,815)	(2,446)
R&D expense	(1,113)	(951)	R&D expense	(1,113)	(951)	R&D expense	(1,113)	(951)	R&D expense	(1,113)	(951)
SG&A expense	(3,537)	(3,092)	SG&A expense	(3,537)	(3,092)	SG&A expense	(3,537)	(3,092)	SG&A expense	(3,537)	(3,092)
Pension expense	(142)	(131)	Pension expense	(142)	(131)	Pension expense	(142)	(131)	Pension expense	(142)	(131)
"Recycled" gain on CF hedges *	20	10	"Recycled" gain on CF hedges *	20	10	"Recycled" gain on CF hedges *	20	10	"Recycled" gain on CF hedges *	20	10
Litigation charges	(100)	(654)	Litigation charges	(100)	(654)	Litigation charges	(100)	(654)	Litigation charges	(100)	(654)
Goodwill impairment	(364)		Goodwill impairment	(364)		Goodwill impairment	(364)		Goodwill impairment	(364)	
Other operating expense	(179)	(294)	Other operating expense	(179)	(294)	Other operating expense	(179)	(294)	Other operating expense	(179)	(294)
Gain on cash flow hedges - OCI	26	36	Net operating income	3,062	2,495						
Translation adjustment	(14)	63	<i>Other comprehensive income:</i>								
Actuarial (loss) on pension oblig	(9)	(5)	Gain on cash flow hedges	26	36						
Comprehensive operating income	3,066	2,589	Translation adjustment	(14)	63						
			Actuarial (loss) on pension oblig	(9)	(5)	Operating income	3,062	2,495	Operating income	3,062	2,495
			Comprehensive operating income	3,066	2,589						
<b>Investing Income</b>			<b>Investing Income</b>			<b>Investing Income</b>			<b>Investing Income</b>		
Realized gain (loss) on AFS	12	3	Realized gain (loss) on AFS	12	3	Realized gain (loss) on AFS	12	3	Realized gain (loss) on AFS	12	3
Unrealized gain (loss) on AFS	1	(16)	Net investing income	12	3	Investing income	12	3	Investing income	12	3
			<i>Other comprehensive income:</i>								
			Unrealized gain (loss) on AFS	1	(16)						
Comprehensive investing income	13	(13)	Comprehensive investing income	13	(13)	Business income	3,074	2,498	Business income	3,074	2,498
Comprehensive business income	3,079	2,576	Comprehensive business income	3,079	2,576						
<b>FINANCING</b>			<b>FINANCING</b>			<b>FINANCING</b>			<b>FINANCING</b>		
<b>Financing income</b>			<b>Financing income</b>			<b>Financing income</b>			<b>Financing income</b>		
Interest income	203	100	Interest income	203	100	Interest income	203	100	Interest income	203	100
<b>Financing expenses</b>			<b>Financing expenses</b>			<b>Financing expenses</b>			<b>Financing expenses</b>		
Interest expense	(116)	(55)	Interest expense	(116)	(55)	Interest expense	(116)	(55)	Interest expense	(116)	(55)
Comprehensive financing income	87	45	Comprehensive financing income	87	45	Financing income	87	45	Financing income	87	45
<b>INCOME TAXES</b>			<b>INCOME TAXES</b>			<b>INCOME TAXES</b>			<b>INCOME TAXES</b>		
Provision for income taxes	(615)	(740)	Provision for income taxes	(615)	(740)	Provision for income taxes	(615)	(740)	Provision for income taxes	(611)	(723)
						<b>OTHER COMPREHENSIVE INCOME</b>			<b>OTHER COMPR INCOME (NET OF TAX)</b>		
						<b>Operating Income</b>			<b>Operating Income</b>		
						Translation adjustment	(14)	63	Translation adjustment	(11)	48
						Actuarial (loss) on pension oblig	(9)	(5)	Actuarial (loss) on pension oblig	(6)	(3)
						Gain on cash flow hedges	26	36	Gain on cash flow hedges	18	28
						<b>Investing Income</b>			<b>Investing Income</b>		
						Unrealized gain (loss) on AFS	1	(16)	Unrealized gain (loss) on AFS	0.7	(12)
						Other comprehensive income	5	78	Other comprehensive income, net	2	61
Total comprehensive income	2,552	1,882	Total comprehensive income	2,552	1,882	Total comprehensive income	2,552	1,882	Total comprehensive income	2,552	1,882

\* This example presents the "recycled" portion of the gain on cash flow hedges as a separate line item for illustrative purposes; it is possible to include this "recycled" gain as a portion of revenues.

6. There will not be a *net income* subtotal presented in the statement of comprehensive income in any of the above alternatives (an implication acknowledged by the Boards in October). Alternative D would allow for a summation of the business, financing, discontinued operations, and income taxes sections to arrive at *net income* as currently presented, but that subtotal would not be presented as a separate line item (of course, another alternative would be to include that subtotal).
7. Further, recognition and measurement of OCI items will not change in any of the alternatives (except for income taxes and the intraperiod allocation that would be required under Alternative D). That is, the originally recognized OCI amount will continue to be recognized and presented as a separate line item. The differences between the alternatives is where the originally recognized amount (for example, unrealized gain on AFS securities) will be displayed (classified), thereby resulting in different subtotals. (The totals and subtotals as illustrated are representative of the staff's current thinking. However, whether other subtotals and totals should be allowed or precluded from being presented will be revisited at a future meeting.)
8. The alternatives, as illustrated, are for an entity that does not have a noncontrolling (minority) interest. The staff has yet to consider any possible issues associated with presenting OCI and other items when the consolidated entity has subsidiaries other than wholly-owned subsidiaries.

#### **Recycling in the Alternatives**

9. Consistent with the Boards' prior decisions, the mechanism of recycling will be maintained in the near-term in each of the above alternatives. However, where and how OCI items are classified and reclassified (recycled) varies in the alternatives—as more fully explained in the following paragraphs, OCI items are recycled **within** the business, financing, and investing categories in Alternatives A and B and **among** the sections or categories in Alternatives C and D. (To illustrate the mechanism of recycling under the four alternatives, the classifications of unrealized and realized gains (losses) on AFS securities and of gains (losses) on cash flow hedges have been highlighted in the illustration.)

10. In Alternative A, OCI items will initially be classified as a separate line item within a statement of comprehensive income section or category (for example, operating or investing) and will be subsequently reclassified (recycled, if necessary) into a separate non-OCI line item. (In some cases the subsequent reclassification will not be shown as a separate line item on the face of the statement. For example, the reclassification of the actuarial gain or loss on a pension obligation (FASB only) would be displayed as a component of pension expense and not as a separate line item. Similarly, the recycled gain or loss on the effective portion of a cash flow hedging instrument might not be displayed as a separate line item; it can be presented net with revenues.)
11. As illustrated in Alternative A, the unrealized gains (losses) on AFS securities would be presented as a separate “unrealized” line item in the investing income category. When the gains (losses) are realized, they would be presented as a separate “realized” line item in the investing income category. That is, the gains (losses) would be recycled within the same category. Under Alternative A, there are no subtotals within the sections or categories that distinguish the OCI components from the non-OCI components.
12. Similar to Alternative A, recycling under Alternative B is performed within the same section as the original recognition of the OCI item. In contrast to Alternative A, Alternative B would have an OCI subcategory within each section or category for which an OCI item is recognized. That is, an OCI item would initially be classified in an OCI subcategory within a section or category and would be subsequently reclassified (recycled, if necessary) into the non-OCI portion of that same category.
13. According to Alternative C, OCI items would initially be classified in an OCI section separate from the other sections and categories (for example, operating and investing) and would be subsequently reclassified (recycled, if necessary) into one of the non-OCI sections or categories. As illustrated, the unrealized gains (losses) on available-for-sale securities would be classified in the OCI section. When the gains (losses) are realized, they would be recycled into the investing income category (which only includes non-OCI items). That is, the gains (losses) would be recycled across the sections and categories.

14. Recycling under Alternative D is similar to Alternative C, in that OCI items would be recycled across the sections and categories. However, OCI items in Alternative D would be presented net of tax.

## **Analysis of Alternatives**

### **Alternatives A and B**

15. In both Alternative A and B, an entity would present all components of comprehensive income within the section or category to which the events or transactions relate and would recycle those items within that same section or category—a separate section for OCI items would not be needed in the statement of comprehensive income. These alternatives would both achieve the cohesiveness principle without exception.
16. An advantage of both Alternatives A and B is that all current period changes in assets and liabilities are recognized in their respective functional section or category in the period in which those changes occur. In Alternative B, some current period changes are originally recognized in a subcategory (OCI) of that section or category, but all current period changes are still initially recognized in the overall section or category to which the events or transactions relate.
17. Alternatives A and B effectively eliminate OCI for any items that are not recycled (specifically, actuarial gains and losses and revaluation gains and losses, according to IAS 19, *Employee Benefits*, IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*). That is, the change in the asset or liability is recognized in the period of change in the functional section or category to which that event or transaction relates. As the change is not subsequently recycled (for those items), that change is not subsequently classified as another component of income.
18. The staff is of the view that Alternatives A and B would also effectively function as a presentation format that can be used in the interim and would accommodate the Boards' long-term goal of OCI items being classified in the same manner as all other changes in assets and liabilities. That is, Alternatives A and B would allow the Boards to individually address OCI items and any change in presentation deemed necessary could be implemented with minimal disruption.

19. In the staff's view, Alternative A is most consistent with the Boards' long-term goal (as expressed in the October joint meeting) of eliminating the separate presentation of OCI items and the mechanism of recycling. However, some may view Alternative A as a change not only to presentation, but also as a change in the underlying accounting for items currently recognized as a separate component of comprehensive income (that is, OCI). Opponents of Alternative A could argue that the Boards had previously decided, on an individual basis, that items currently classified as OCI were identified as being sufficiently different from other income and expense items (that is, components of net income) to warrant separate classification. Accordingly, it could also be argued that these items continue to warrant separate classification from other items of income and expense. Alternative B presents OCI in a separate subcategory from the other income and expense items that have occurred during the period. Accordingly, Alternative B is somewhat responsive to the concerns that OCI items are sufficiently different from other items of income and expense; Alternative A is not.
20. As noted above and in contrast to Alternative A, Alternative B would present two subcategories to distinguish OCI items from non-OCI items. In addition, each section or category under Alternative B would, subject to future discussion on totals and subtotals, present a subtotal for income not including OCI items and a subtotal for all (comprehensive) income, including OCI items. This presentation would accommodate (a) those who wish to analyze performance absent OCI items, as well as (b) those who wish to take OCI items into consideration when analyzing performance. As Alternative A would present only a single subtotal for each section or category, this would make it difficult for those who wish to analyze non-OCI items separately from OCI items to do so.
21. A potential disadvantage of Alternatives A and B is that all OCI items must be assigned to a single financial statement section or category, even if that item is the result of the interaction of items in different sections or categories. This issue is particularly troublesome when considering the foreign currency translation adjustment. For a consolidated foreign subsidiary and the related foreign currency translation adjustment, a single asset or liability does not exist on the statement of financial position to dictate the classification of those changes on the statement of



comprehensive income. For the other OCI items, an asset or liability on the statement of financial position can be identified, and the changes therein would be classified accordingly in the statement of comprehensive income. That is, for OCI items other than the foreign currency translation adjustment, the challenge is classifying the underlying asset or liability into one of the functional sections or categories, not classifying the OCI item itself.

22. The staff notes that this issue may more accurately be described as a disadvantage of the cohesiveness principle as a whole, rather than solely how OCI items would fit into the existing sections or categories. In other words, the classification of items other than OCI items also can be debatable and not straightforward. The following paragraphs discuss how current OCI items might be classified according to the cohesiveness principle in the financial statement working format.

#### *Possible Classification of OCI Items*

##### **Foreign currency translation adjustments**

23. In theory, foreign currency translation adjustments would be classified in the same category as other activities related to the foreign subsidiary or equity method investment. However, in the case of a consolidated foreign subsidiary, it is impossible to link the translation adjustment to a single asset or liability recognized on the face of the statement of financial position. Thus, the classification of foreign currency translation adjustments may require a practical solution.
24. One possible solution would be for an entity to consider how the investment would have been classified prior to the consolidation process and classify the translation adjustment accordingly. Another possibility is for the standard to require the foreign currency translation adjustment to be classified in the same category in all cases. (The staff plans to discuss this issue, along with the presentation of cash flows related to acquisitions and disposals of subsidiaries and other business units, in a future meeting. At this point the staff welcomes Board member views that may be useful in facilitating future discussion on this issue.)

**Unrealized gains and losses on available-for-sale securities**

25. Unrealized gains and losses on AFS securities would be classified in the same category as the related security is classified (for non-financial institutions, generally, financing or investing categories).

**Gains and losses resulting from cash flow hedges**

26. Gains and losses on the hedging instrument would be presented in the same section of the comprehensive income statement that will be affected by the forecasted transaction. The effective portion of those gains or losses would be presented in OCI and the ineffective portion would be presented in a non-OCI component of comprehensive income. The hedging instrument would be presented in the section of the statement of financial position that corresponds to the classification of the gains or losses in the comprehensive income statement. That is, if the gains or losses are in the operating category of the comprehensive income statement, the hedging instrument would be in the operating category of the statement of financial position.

**Actuarial gains and losses and prior service costs and credits (FASB only)**

27. As discussed at the October joint meeting, it is unlikely that pension and other postretirement benefit obligations would be presented in a section or category other than operating. Thus, actuarial gains and losses and prior service costs and credits would be classified in the operating income category.

**Actuarial gains and losses (IASB only) (Not recycled)**

28. For the reasons noted in paragraph 27, actuarial gains and losses would similarly be classified in the operating income category.

**Revaluation gains and losses (IASB only) (Not recycled)**

29. Property, plant, and equipment, and intangible assets that are subject to IAS 16, *Property, Plant and Equipment*, or IAS 38, *Intangible Assets*, would likely be presented in the operating category. Accordingly, revaluation gains arising from those assets would be classified in the operating income category on the statement of comprehensive income. It is less likely that the relevant property, plant, and equipment, and intangible assets would be classified in the investing category. If, however, that was the case, revaluation gains arising from those assets would be classified in the investing income category on the statement of comprehensive income.

## **Alternatives C and D**

30. Alternatives C and D would present all OCI items in a separate section on the statement of comprehensive income and recycle across categories. This separate presentation would allow for all OCI items to be analyzed and considered as a whole. (Under Alternatives A and B, OCI items are dispersed among the other functional sections and categories.) However, under Alternatives C and D the OCI section would include operating, investing, and financing categories, which would allow a user to reclassify information to create a fully cohesive statement.
31. A disadvantage of Alternatives C and D is that it would introduce an exception to the cohesiveness principle, because OCI items would be classified in a section that does not appear on the statements of financial position and cash flows. As a result, not all changes in assets and liabilities would be classified in the same category in the statement of comprehensive income that the asset or liability is classified in on the statement of financial position.
32. The presentation of OCI items under Alternatives C and D is the same except that OCI items are presented on a pre-tax basis under Alternative C, whereas they are presented on a net of tax basis under Alternative D.
33. Alternative D is included in this memorandum as it is closest to the current presentation of OCI items. This alternative may be favored by those who want to retain some notion similar to *net income*.
34. The staff does not support Alternative D because, in addition to violating the cohesiveness principle, it reintroduces the issues associated with intraperiod tax allocation, including backwards tracing. The Boards decided in September that all income taxes would be presented in a separate section, eliminating the need for intraperiod tax allocation. There is no conceptual basis for presenting only the OCI section, and not the other sections (for example, business or discontinued operations), net of tax.
35. The staff notes that most OCI items are considered remeasurements (due to changes in prices or estimates) and thus will be highlighted in the information the Boards

indicated they would like to include in the financial statements about remeasurements. Thus, presenting OCI items in a separate section in the statement of comprehensive income (Alternatives C or D) might be somewhat redundant. (The staff intends to discuss alternatives for providing information about remeasurements (and non-remeasurements) with the Boards in January based on the discussions at the October meetings.)

### **Staff Recommendation**

36. The staff is of the view that the cohesiveness principle should be adhered to regardless of whether all OCI items and the notion of recycling is eliminated (and therefore does not support Alternatives C or D). Alternatives A and B would adhere to the governing principle of cohesiveness among financial statements without exception.
37. In addition, under Alternatives A and B, all current period changes in assets and liabilities are recognized in the functional section or category in the period in which those changes occur. However, in contrast to Alternative A, the presentation under Alternative B would accommodate those who wish to analyze an entity's business absent OCI items, as well as those who wish to analyze an entity's business taking OCI items into consideration.
38. The staff asserts that Alternatives A and B can effectively function as a presentation format that can be used in the interim and would easily accommodate the Boards' long-term goal of OCI items being classified in the same manner as all other changes in assets and liabilities.
39. The staff's preference is for Alternative A, as it is closest to the long-term goal the Boards discussed at the October joint meeting. However, recognizing that Alternative A may be too far from the interim goal discussed at that meeting, the staff recommends Alternative B which presents OCI items as a subcategory within the functional section or category on the statement of comprehensive income to which the events or transactions relate and recycles within that same section or category.

### **Question for the Boards**

- 1: How should other comprehensive income items be presented in the statement of comprehensive income?**

## **ISSUE 2: SHORT AND LONG-TERM SUBCATEGORIES ON THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS**

40. At the October joint meeting, the Boards decided that an entity should be required to present short and long-term subcategories in each of the categories or sections on the face of the statement of financial position. Given that decision, a strict application of the cohesiveness principle might suggest that the short and long-term subcategories presented in the statement of financial position should also be presented in the statements of comprehensive income and cash flows.
41. At their respective July meetings, the Boards decided that the short and long-term subcategories should not be presented in the statements of comprehensive income and cash flows due to the high level of interaction of short and long-term assets and liabilities, as classified on the statement of financial position. However, the issue resurfaced in October during the discussion on the presentation of OCI items.
42. The staff is hopeful that the Boards will agree to one of the four above alternatives for presenting OCI items on the statement of comprehensive income. If the Boards are able to reach agreement, the short and long-term issue may not need to be addressed further. The staff has done some preliminary work on this issue but needs to more fully understand this position before bringing the issue to the Boards for discussion.
43. The staff plans on discussing alternatives for presenting information about remeasurements at the January meeting. As most OCI items are generally considered remeasurements, the presentation of OCI items as remeasurements may alleviate some of the concerns expressed by some Board members.

### **Question for the Boards**

- 2: **Do the Boards wish to explore further the possibility of presenting short and long-term subcategories on the face of the statements of comprehensive income and cash flows?**

APPENDIX

OTHER COMPREHENSIVE INCOME (OCI) ITEMS

Recycled	Not Recycled
<p><b>Foreign currency translation adjustments</b> (FASB Statement No. 52, <i>Foreign Currency Translation</i> and IAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i> )</p>	<p><b>Actuarial gains and losses</b> (optional in IAS 19, <i>Employee Benefits</i>)</p>
<p><b>Unrealized gains and losses on available-for-sale securities</b> (FASB Statement No. 115, <i>Accounting for Certain Investments in Debt and Equity Securities</i> and IAS 39, <i>Financial Instruments: Recognition and Measurement</i>)</p>	<p><b>Revaluation gains and losses</b> (optional in IAS 16, <i>Property, Plant and Equipment</i>, and IAS 38, <i>Intangible Assets</i>)</p>
<p><b>Gains and losses resulting from cash flow hedges</b> (FASB Statement No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> and IAS 39)</p>	
<p><b>Actuarial gains and losses, prior service costs and credits, and transition assets and obligations</b> (FASB Statement No. 158, <i>Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans</i>)</p>	