30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting/Joint Meeting:	**17/24 October 2006, London/Norwalk**
Project:	**Financial Statement Presentation**
Subject:	**Measurement; OCI and Recycling; the Statement of Comprehensive Income (Agenda Paper 6C/44C) (Also issued as observer note for Joint IASB/FASB meeting)**

1. This memo is presented in the following parts:

   Part 1: Information regarding measurement of assets and liabilities

   Part 2: Other comprehensive income and the mechanism of recycling

   Part 3: Presentation of the statement of comprehensive income and related notes

PART 1: INFORMATION REGARDING MEASUREMENT OF ASSETS AND LIABILITIES

2. Working principle 6 states that *financial statements should present information in a manner that helps a user understand:*
   a. *The measurement attributes used to measure assets and liabilities*
   b. *The relative dispersion of the measurements of individual assets and liabilities*
   c. *What causes a change in reported amounts of individual assets and liabilities (such as transactions or remeasurements)*

At the May brainstorming meetings, it was clear that those sub-principles need to be revised to clarify the Boards' intent. This part of the memo addresses each of those sub-principles individually and presents the staff's recommendations for revising the sub-principles and applying them to the financial statements.

Issue 1.1: How Assets and Liabilities are Measured

Proposed Revision to Working Principle

3. Sub-principle 6(a)—*help a user understand the measurement attributes used to measure assets and liabilities*—means that by reading the financial statements (which include the notes), the reader should know on what basis an asset or liability is measured (for example, cost basis, fair value basis, etc.) As not all assets and liabilities are measured based on a single measurement attribute, the staff recommends that the sub-principle be revised as follows: *help a user understand ~~the measurement attributes used to measure~~ how assets and liabilities are measured.*

Application of Working Principle

4. In discussing alternative ways of applying the measurement sub-principles it is important that the Boards have a common understanding of how the information might be used by analysts (and others). The July 2006 joint discussion document on the conceptual framework states that "information has predictive value [if] it has value as an input to a predictive process" (QC10). The basis for conclusions states that "information has predictive value if users use it, or could use it, in making their own predictions about the eventual outcomes of past, present, or future events and their effects on future cash flows" (BC2.11). Information about how assets and liabilities are measured can be said to enhance predictive value because it assists users in assessing the inputs in a predictive model.

5. Presenting information *on the face of the statement of financial position* about how assets and liabilities are measured could be challenging due to the multitude of ways assets and liabilities are currently measured (for example, cost, amortized cost, replacement cost, net realizable value, lower of cost or market, fair value, or fair-value based). The following are some possible approaches to presenting this information on the face of the statement of financial position, none of which

appear to be viable solutions because the resulting financial statement would be too cluttered:

a. A multi-column (East/West) presentation or multi-category (North/South) presentation for each different measurement basis (the balance for each asset/liability would be placed in the appropriate column or category).

b. A category or column for some of the measurement bases, the rest would be included in an "other" column or category

c. A brief parenthetical description of measurement "method" after each caption on the balance sheet.

6. If the measurement principle were the governing principle, the face of the statement of financial position could be presented in a way to fully disclose the various measurement bases for each individual line item (for example, a multi-category presentation for each measurement basis). However, measurement bases for each line item would be impractical to present on the statement of financial position given the working format for the financial statements (governed by the cohesiveness principle). Alternatively, information about measurement could be included in the notes to the financial statements. This "disclosure" approach was discussed at the May brainstorming sessions and seemed to be the most viable solution.

7. In current IFRS, IAS 1 requires disclosure of the measurement basis (or bases) used in preparing the financial statements in the summary of significant accounting policies. IAS 1 states that, in deciding whether a particular accounting policy should be disclosed, management should consider whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the reported financial performance and financial position.

8. While there is no similar general guidance in U.S. GAAP, current U.S. accounting standards recommend or require disclosure of much of this information (see below):

a. APB Opinion No. 22, *Disclosure of Accounting Policies*, requires disclosure surrounding methods used when more than one acceptable alternative exists.

b. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of* Business *Enterprises,* recommends disclosure of information such as significant accounting policies or alternative measures for assets or liabilities, as this information explains information recognized in the financial statements.

c. AICPA Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*, Chapter 4 requires disclosure of inventory pricing methods adopted for inventory pricing and depreciation methods used.

d. FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, requires disclosure of the methods and assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies.

e. FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments.

f. FASB Statement No. 123(R), *Share-Based Payment*, requires disclosure of the method of estimating the fair value of the goods or services received, or the fair value of the equity instruments granted.

g. FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, requires disclosure of certain assumptions used in accounting for pension and other postretirement benefit plans.

h. FASB Statement No. 157, *Fair Value Measurements*, requires disclosure of information that enables users to assess the inputs used to develop fair value measurements for assets and liabilities that are measured at fair value on a recurring and a nonrecurring basis in periods subsequent to initial recognition. In addition, a reporting entity is encouraged, but not required, to disclose information about other similar measurements (for example, inventories measured at market value under ARB 43, Chapter 4), if practicable.

9. In addition, the January 2006 FASB Exposure Draft, *Fair Value Option for Financial Assets and Financial Liabilities*, would require an entity to report on the face of the statement of financial position its assets and liabilities that are subsequently measured at fair value in a manner that separates those fair values from the carrying amounts of assets and liabilities subsequently measured using some other measurement attribute.

10. The staff is of the view that the general guidance in IAS 1 (refer to paragraph 7) that requires disclosure related to measurement basis (or bases) used in preparing the financial statements should be included in the financial statement presentation standard. However, if a specific accounting standard required disclosure of measurement information, an entity would need to comply with that standard.

11. A related issue is whether all line items should be presented based on a single measurement basis and thus no line items would be a combination of items measured using different measurement bases. For example, currently, an *Investments* line item on the statement of financial position may include trading

securities and held-to-maturity investments measured at fair value and amortized cost, respectively.

12. The staff is of the view that it is not necessary to require all line items to be presented based on a single measurement basis. However, if a certain line item includes assets or liabilities measured using different measurement bases, a disclosure should be provided so that users can understand the measurement bases used and the amount included in that line item based on each measurement basis. The staff notes that at the JIG meeting in September 2006, JIG members generally agreed with the staff's analysis that this was the only area in which information about how assets and liabilities are measured was lacking.

Staff Recommendation

13. The staff recommends that the financial statement presentation standard include the general guidance in IAS 1 that requires disclosure of measurement basis (or bases) used in preparing the financial statements in the summary of significant accounting policies.

14. The staff also recommends that, if items included within a certain line item in the statement of financial position are measured on more than one measurement basis, an entity should be required to disclose the measurement bases used and the amount included in that line item based on each measurement basis.

Question 1.1 a: Should there be general guidance similar to that in IAS 1 that would require disclosure related to the measurement basis (or bases) used in preparing financial statements in the summary of significant accounting policies?

Question 1.1b: When a line item is an aggregation of items measured using different measurement bases, should the notes to the financial statements identify the measurement bases and the amount included in that line item based on each measurement basis?

Issue 1.2: Measurement Uncertainty and Subjectivity

Proposed Revision to Working Principle

15. Sub-principle 6(b)—*help a user understand the relative dispersion of the measurements of individual assets and liabilities*—implies that the reader should know the width of the range of possible measurements for each asset/liability and how that range compares to other assets/liabilities of the entity.

16. Based on discussions at the brainstorming meetings, it appears that disclosure of this information (that is, the ends of the range) would entail computation of information that an entity does not necessarily currently compute and may not be able to compute and thus would not be cost beneficial. In addition, the ends of the range may be misleading to users if the probability of each possible outcome is not also disclosed. The staff asserts that focusing on how uncertain the measurement of an asset or liability is (due to measurement precision or measurement bias) would be consistent with the Board's intent in agreeing to this working principle. Thus, the staff recommends that the sub-principle be revised as follows: *help a user understand the ~~relative dispersion of the~~ uncertainty in measurements of individual assets and liabilities.*

Application of Working Principle

17. The staff asserts that information about the uncertainty of the measurement of an asset or liability would be useful to users of financial statements because it alerts the user to consider whether and to what extent the amount recognized should be used to predict future cash flows.

18. Some alternatives discussed by the staff for providing information about measurement uncertainty include:

    a. **Alternative A**: Display assets and liabilities in the statement of financial position in order of measurement certainty. Alternatively, a similar ordering could be done on the statement of comprehensive income.

    b. **Alternative B**: Require entities to describe (in the notes to financial statements) any significant uncertainty in the current measure of assets and liabilities (due to measurement precision or measurement bias) and how the measured amount was selected, within the context of the measurement attribute used.

Analysis of Alternatives

19. Ordering items on the balance sheet or the statement of comprehensive income based on measurement certainty (Alternative A) would conflict with the categorization scheme in the working format and be an exception to the cohesiveness principle. In addition, displaying items in order of measurement certainty might not provide the necessary information to users because the placement of an item on a list would not indicate *how* uncertain its measurement is, just that it is more/less certain relative to the item above/below it. Also, there may be different levels of measurement uncertainty aggregated into a single financial statement line item, making ordering by uncertainty impractical. Thus, Alternative A might be very difficult to operationalize.

20. Because not all assets and liabilities have uncertain measurements, the staff is of the view that Alternative B is a better choice. Providing information about only those assets and liabilities for which there is significant measurement uncertainty will ensure that the important and necessary information does not get obscured by less important information. However, the staff is concerned that including a general requirement in the financial statement presentation standard to disclose information about significant measurement uncertainties might not result in disclosure of the desired information. That is because the disclosure might become boilerplate, preparers might inconsistently interpret what is significant to the financial statement users, or both.

21. Because measurement uncertainty means different things for different measurement attributes, the staff is of the view that the financial statement presentation standard is not the best place to provide guidance about disclosing information about measurement uncertainty that would apply to a variety of assets and liabilities measured using different attributes. The staff asserts that it would be better to rely on individual accounting standards to require disclosure of information about significant uncertainty in the current measure of assets and liabilities (due to measurement precision or measurement bias) and how the measured amount was selected, within the context of the measurement attribute used. Thus the Boards could decide on a standard-by-standard basis when information about measurement uncertainty would be useful and could prescribe

the appropriate way to disclose or display that information—in some cases it might be qualitative, in others it might be quantitative.

Staff Recommendation

22. The staff recommends that the financial presentation standard should mention that disclosure of information about the significant uncertainty in the current measure of assets and liabilities (due to measurement precision or measurement bias) and how the measured amount was selected, within the context of the particular measurement attribute used should be prescribed in individual standards when the Board deems it appropriate.

Question 1.2: Should disclosure of information about the significant uncertainty in the current measure of assets and liabilities (due to measurement precision or measurement bias) and how the measured amount was selected, within the context of the particular measurement attribute used be prescribed in individual standards when the Board deems it appropriate rather than prescribed in a general way in the financial statement presentation standard? If so, should the financial statement presentation standard make reference to this?

Issue 1.3: Changes in Assets and Liabilities

Proposed Revision to Working Principle

23. Sub-principle 6(c)—*help a user understand what causes a change in reported amounts of individual assets and liabilities (such as transactions or remeasurements)*—means that by reading the financial statements a reader should understand the different types of changes in assets and liabilities that may be used in different ways in predicting future cash flows. As the parenthetical "such as transactions or remeasurements" does not add to the working principle, the staff recommends that this sub-principle be revised to delete those words**:** *help a user understand what causes a change in reported amounts of individual assets and liabilities ~~(such as transactions or remeasurements)~~.*

Application of Working Principle

24. Based on the working format for the statement of comprehensive income, changes in financing assets and liabilities, investing assets and liabilities, and operating assets and liabilities will be displayed separately. However, because the cause of changes reported in each category vary (for example, not all are due to changes in fair value), we still need to address this sub-principle. The Boards have previously discussed or been exposed to a number of possible ways to achieve sub-principle (c), most of which included a multi-column presentation on the statement of comprehensive income. However, before the Boards discuss **how** that information might be presented, they need to discuss what information should be presented.

25. The staff asserts that the most prominent differences in changes in assets and liabilities are that some are based on changes in prices or estimates (hereinafter "remeasurements") and others are not (hereinafter "non-remeasurements"). The staff contends that it is useful to discern non-remeasurements from remeasurements because the effects on the prediction of future cash flows are likely to be different.

26. Remeasurements usually represent updates made by an entity regarding the prediction of future cash flows of a particular asset or liability. Because the effects of future cash flows are incorporated in the measurement of the asset or liability, the valuation multiple for the change in price or estimate tends to be close to one. For example, a Level 1 fair value measurement follows a "random walk" and would not be indicative of future cash flows and thus the valuation multiple for the changes in fair value of an asset or liability measured by a quoted market price would, conceptually, be one.

27. Non-remeasurements may or may not be indicative of future cash flows and, therefore, the valuation multiple for the change in an asset or liability may or may not be more than one. For example, revenue transactions usually would be indicative of future cash flows and thus their valuation multiple is likely to be more than one. However, losses from natural disasters usually would not be indicative of future cash flows and thus their valuation multiple is likely to be one.

28. The staff acknowledges that both remeasurements and non-remeasurements would include items that are likely to be assigned a valuation multiple of one. However, the staff notes that the types of items included in remeasurements and non-remeasurements are different in nature. Items included in non-remeasurements are assigned a valuation multiple of one because the item is unlikely to recur; that decision is unavoidably judgmental. Items included in remeasurements may recur, but they are nonetheless assigned a valuation multiple of one because the remeasurement takes into account the latest predictions of future cash flows.

29. In prior models discussed by the Boards, *remeasurements* were defined as revisions of prices or estimates that change the carrying amount of an asset or liability; examples include actuarial gain or loss, revaluation of a building, and mark-to-market changes. Non-remeasurements included depreciation expense and pension service cost. The October 2005 report from the CFA Institute recommended presenting information about changes in three buckets: changes due to current period transactions/accruals, estimates, and fair value changes.

30. The staff is of the opinion that, at minimum, the financial statements should allow a user to distinguish between non-remeasurements and remeasurements. The question the Boards need to consider is whether identifying the changes that are due to remeasurements and those that are not is adequate, or whether a further break down of what caused the changes in assets and liabilities in a period should be presented.

31. The staff is of a view that an approach that limits the disaggregation of information to two buckets—the change is either a remeasurement (which needs to be clearly defined) or it's not—should be easier to operationalize than adding more buckets or categories. While further disaggregation is likely to enhance the usefulness of the information provided, the staff is of the view that disaggregation can and will be done within the buckets to a certain extent. For example, the non-remeasurement bucket would include cash transactions and non-cash transactions. The information related to cash transactions would also be presented in the statement of cash flows. The remeasurements bucket would include remeasurements that arise from various measurement bases.

32. As discussed earlier in this memo, the staff recommends that information regarding measurement bases be presented as part of an entity's significant accounting policies. Moreover, Statement 157 requires specific disclosures for fair value measurements, separating assets regularly measured at fair value and those not regularly measured at fair value. Accordingly, the staff asserts that the classification of changes in assets and liabilities into remeasurements and non-remeasurements would be sufficient.

Staff Recommendation

33. The staff recommends that the financial statements provide information that will allow a user to distinguish between changes in assets and liabilities that are due to remeasurements and changes that are not. In applying that recommendation, *remeasurements* would be defined as "revisions of prices or estimates that change the carrying amount of an asset or liability." How this information might be displayed in the financial statements (either on the face or in the notes) is addressed in Part 3 of this memo.

Question 1.3: ***Should information about changes in assets and liabilities to be presented in the financial statements (either on the face or in the notes) be limited to changes not due to remeasurements and changes due to remeasurements?***

If so, should* remeasurements *be defined as "revisions of prices or estimates that change the carrying amount of an asset or liability"?

If not, what other change information should be presented?

PART 2: OTHER COMPREHENSIVE INCOME AND THE MECHANISM OF RECYCLING

Introduction

The Mechanism of Recycling

34. *Comprehensive income* can be defined as "the change in equity of an entity during a period from transactions and other events, other than those resulting from contributions by and distributions to owners in their capacity as owners" and *net income* can be defined as "comprehensive income less the components of other

comprehensive income (OCI)." Based on these definitions, the mechanism of recycling can be described in two steps:

a. A component of comprehensive income is recognized outside of net income, that is, in OCI, and is accumulated in a component of equity called accumulated OCI.
b. When the nature of an item recognized in OCI changes in a subsequent accounting period (as promulgated in accounting standards), an amount is reclassified from OCI to net income (FASB Statement No. 130, *Reporting Comprehensive Income,* defined this procedure as *reclassification adjustments*).

35. The overall effect of recycling is that the cumulative amount of net income eventually equals the cumulative amount of comprehensive income if all OCI items are recycled. Thus, the difference between net income and comprehensive income becomes a "timing" issue.

Existing Guidance Related to OCI

36. In current FASB literature, the following items give rise to OCI:

(a) Foreign currency translation adjustments (FASB Statement No. 52, *Foreign Currency Translation*)
(b) Unrealized gains and losses on available-for-sale securities (FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*)
(c) Gains and losses resulting from cash flow hedges (FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*)
(d) Actuarial gains and losses, prior service costs and credits, and transition assets and obligations (FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*).

All of these OCI items are recycled.

37. In current IASB literature, the following items give rise to OCI:

(a) Foreign currency translation adjustments (IAS 21, *The Effects of Changes in Foreign Exchange Rates*)
(b) Actuarial gains and losses (optional in IAS 19, *Employee Benefits*)
(c) Unrealized gains and losses on available-for-sale securities (IAS 39, *Financial Instruments: Recognition and Measurement*)
(d) Gains and losses resulting from cash flow hedges (IAS 39)
(e) Revaluation gains and losses (optional in IAS 16, *Property, Plant and Equipment,* and IAS 38, *Intangible Assets*).

Of these OCI items, actuarial gains and losses (optional in IAS 19), and revaluations gains and losses (optional in IAS 16 and IAS 38) are not recycled.

Issue 2.1: Other Comprehensive Income and the Cohesiveness Principle

Should There be a Separate Section for Other Comprehensive Income?

38. At their respective July 2006 Board meetings, the Boards decided that the cohesiveness principle (presentation by using the same functional sections/categories in each of the financial statements) should be the governing principle that determines how each of the financial statements should be presented. Each of those sections and related categories (perhaps with the exception of discontinued operations) is based on the various functions an entity engages in.

39. The staff notes that one of the major criticisms of the presentation of net income is that there is no consistent concept underlying the items that are recognized directly in net income or OCI. However, the staff observes that, for each OCI item, the Boards had various reasons that made them reluctant to include the change in assets and liabilities immediately in net income. That reluctance may have arisen from the recognition of unrealized gains and losses (conservatism), measurement uncertainty, volatility, or a combination of these factors.

40. Many components of comprehensive income other than OCI items are unrealized gains and losses, have measurement uncertainty, and/or are volatile. The staff is of the view that those characteristics are not the type that constitute a functional activity an entity would engage in. Thus, the staff would not support an approach that would include an OCI section in each of the financial statements (the only way net income could be presented on the face of the statement of comprehensive income while retaining cohesiveness as the governing principle). There is of course the possibility of making an exception to the cohesiveness principle (that approach also would not be supported by the staff).

41. If cohesiveness is to be the governing principle without exception and the sections/categories in each of the financial statements should generally represent a function an entity engages in**, all** assets and liabilities should be classified as either business, financing, income taxes, or discontinued, and **all** changes in **all** assets and liabilities should be presented in the corresponding category in the statement of comprehensive income. Therefore, an asset or liability that currently gives rise to OCI should be classified in one of the categories in the statement of financial

position and **all** changes in that asset or liability should be recorded in the corresponding category in the statement of comprehensive income. For example, if AFS securities were classified in the investing category in the statement of financial position, **all** changes (that is, realized **and** unrealized changes) would be presented in investing income on the statement of comprehensive income.

Staff Recommendation

42. Based on the discussions above, the staff recommends that the cohesiveness principle be applied by classifying OCI items in the categories that are based on the functional activities of an entity and that an additional section (that is, the OCI section) **not** be added to the working format. The staff notes that this recommendation does not necessarily mean that the mechanism of recycling would be eliminated. The mechanism of recycling is discussed in Issue 2.2. The staff recommendation related to the presentation of OCI items is illustrated in FASB Memorandum 44D and IASB Agenda Paper 6D.

Question 2.1: ***Should other comprehensive income be a separate section in each of the financial statements or should other comprehensive income items be classified in the appropriate categories that are based on functional activities of an entity?***

Issue 2.2: Net Income and Recycling

The Mechanism of Recycling

43. Assuming that the Boards agree with the staff recommendation that OCI items should be classified in the appropriate functional category, the next question is whether net income should be presented in the financial statements. The staff is of the view that the value in the mechanism of recycling must be discussed in order to answer that question.

44. The staff notes that the mechanism of recycling is not based on the conceptual frameworks of the Boards. OCI items were developed *ad hoc*, and there is no consistent concept that would discern components of net income from OCI. While many have attempted to define net income or develop a consistent concept, the staff has yet to see any that is convincing.

Staff Recommendation

45. The staff is of the view that any subtotal within comprehensive income should not have a "timing" difference. That is, any subtotal within comprehensive income should be based on changes in assets and liabilities that have occurred in the current period. Accordingly, the staff recommends that the mechanism of recycling should be eliminated and that any subtotal within comprehensive income should be based on changes in assets and liabilities that have occurred in the current period. Therefore, the subtotal of what is called net income should not be presented in the statement of comprehensive income.

46. As recommended in the prior issue, the staff is of the view that the components of comprehensive income should be classified in financing, operating, investing, and other categories, and the changes in assets and liabilities recognized in those categories should be limited to those arising from the current period. However, as discussed in the next issue, the staff is of the view that, for communication purposes, the Boards should revisit the accounting (recognition and measurement) for assets and liabilities that give rise to OCI.

47. If the Boards are inclined to agree with the staff recommendation, this recommendation (along with the entire package of tentative views) would be applied to the financial statements of several companies to determine if it achieves the desired results. This would be done prior to issuing the initial discussion document.

48. [Sentence omitted from Observer Notes] The staff notes that, if Board members are inclined to retain the presentation of net income and the mechanism of recycling, that presentation could be accomplished in the notes to the financial statements. This alternative is described in Part 3.

Question 2.2a: ***Should the mechanism of recycling be eliminated and any subtotal within comprehensive income based on changes in assets and liabilities that have occurred in the current period (that is, there should be no "timing" difference)?***

Question 2.2b: ***Should the subtotal of what is called net income <u>not</u> be presented on the face of the statement of comprehensive income?***

Issue 2.3: Communication

Should the Project Address Presentation Issues Only?

49. Since the inception of the project, both Boards have repeatedly stated that this project would address only presentation issues and that it would not address recognition and measurement issues. Consistent with this thinking, in their respective March 2006 Board meetings, both Boards decided that the name of the project be changed to "Financial Statement Presentation."

50. In April 2005, the Boards jointly confirmed that this project should address whether there is value in the mechanism of recycling. Many constituents have asserted to the Boards that eliminating the mechanism of recycling and the presentation of net income are not merely presentation issues and that addressing these issues as a presentation project is a "stealth attempt" to change recognition and measurement.

51. In the previous Issue, the staff recommended that the mechanism of recycling and the subtotal of net income should be eliminated. The staff notes that the recommendation would result in a significant change in current practice, and anticipates that there will be strong resistance from various constituents.

52. One of the reasons for this strong resistance would be the constituents' unfamiliarity with the concept of comprehensive income. While entities adopting U.S. GAAP have been presenting comprehensive income since Statement 130 (issued in 1997) became effective, IAS 1 has required the presentation of comprehensive income for only certain entities. The IASB's Exposure Draft related to Phase A decisions, which requires all entities to present comprehensive income, is yet to be finalized. Many constituents continue to believe that net income is the "bottom line" and there is widespread anxiety in eliminating that subtotal.

53. The staff is of the view that any change to current OCI items, while it may or may not affect recognition and measurement, is likely to challenge the inherent premises of certain existing standards. For example, if the mechanism of recycling were eliminated, the conceptual difference between trading securities and AFS securities would be nullified. The question is whether all the implications of

eliminating the presentation of OCI can be justified as "just a presentation change" that is appropriate in a presentation project.

54. Moreover, it is likely that some constituents would assert that, if recycling were to be eliminated, they would prefer to change recognition and measurement in such a way that the revised comprehensive income would be the same as "net income" today. For example, some constituents may contend that AFS securities should be measured at historical cost.

55. Communication is paramount in this project. Accordingly, the staff is of the view that it would not be productive to argue with constituents about whether a proposed change is a presentation issue or not. Rather, the accounting (recognition and measurement) of assets and liabilities that currently give rise to OCI should be revisited, preferably in separate projects.

56. The staff emphasizes that revisiting the accounting does not mean that the Boards would be committed or obliged to change the accounting; the Boards may simply reaffirm current guidance. Nonetheless, the staff is of the view that this would be an important step in a project where communication is paramount.

57. Because each OCI item was determined *ad hoc*, the Boards might need different reasons to justify eliminating each OCI item and maintaining the current recognition and measurement for the assets and liabilities that currently give rise to OCI. The Boards already have projects on their agenda for some OCI items (for example, pensions and financial instruments). The staff notes that, in its prior discussions, the IASB decided to provide an exception for the accounting for cash flow hedges. The staff is of the view that all OCI items should be revisited.

58. The following paragraphs discuss some of the possible issues to be discussed for each OCI item if the mechanism of recycling were to be eliminated.

Foreign currency translation adjustments

59. Foreign currency translation adjustments arise for a variety of reasons, and the amount recognized would depend on, among others, the foreign currency exchange rates used. If the mechanism of recycling were to be eliminated, some may prefer to change the translation method currently in Statement 52 and IAS 21.

Unrealized gains and losses on available-for-sale securities

60. Statement 115 and IAS 39 do not apply to investments in consolidated subsidiaries and equity method investments. Some constituents have asserted that certain equity investments that are not accounted for under the equity method or the consolidation method should also be exempted from being measured at fair value with changes in fair values recognized in net income. If recycling were to be eliminated it is likely that these constituents would argue that these investments should not be measured at fair value in the first place.

61. Statement 115 and IAS 39 apply to investments that have readily determinable fair values. This essentially limits fair value measurement to equity investments that can be measured using Level 1 inputs as defined in the fair value hierarchy in Statement 157. If recycling were to be eliminated, a question would arise as to whether all or any equity investments should be measured at fair value.

Gains and losses resulting from cash flow hedges

62. Entities enter into cash flow hedge transactions in order to manage net income. The elimination of the mechanism of recycling and the presentation of net income would essentially eliminate cash flow hedge accounting. .

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

63. Statement 158 "continues the past practice of delaying recognition of actuarial gains and losses as a component of net periodic benefit cost, reflecting the long-term nature of postretirement benefit arrangements." The issue is whether "smoothing" of items with a long-term nature, which generally have a relatively higher measurement uncertainty and volatility compared to short-term items, presents information that is representationally faithful.

Actuarial gains and losses (IASB only)

64. The optional treatment in IAS 19 related to actuarial gains and losses does not require recycling. The item is treated exactly in the same manner as net income in the sense that it is transferred to retained earnings in the period it is recognized, although the amount is presented outside of net income. The staff views this as a labeling issue.

Revaluation gains and losses (IASB only)

65. Revaluation gains and losses accounted for in accordance with the option provided in IAS 16 and IAS 38 are initially recognized as OCI and accumulated as a component of equity called *revaluation surplus*. The *revaluation surplus* may be transferred directly to retained earnings when the asset is derecognized, without the transfer affecting net income.

66. The staff speculates that this accounting treatment is justified by applying the "capital maintenance" concept. Because this OCI item is not recycled, the OCI item can continue to exist even if recycling is eliminated. However, the staff notes that U.S. GAAP does not permit the recognition of revaluation gains and, therefore, convergence should be sought between the Boards.

Staff Recommendation

67. The staff recommends that, for communication purposes, the Boards should revisit the accounting (recognition and measurement) of assets and liabilities that give rise to OCI, preferably in separate projects, before the final standard on financial statement presentation is issued. This would alleviate the concerns raised from constituents who assert that this project should address only presentation issues.

Question 2.3: Should recognition and measurement issues related to assets and liabilities that give rise to OCI be revisited? If so, should this project or other separate projects address these issues?

PART 3: PRESENTATION OF THE STATEMENT OF COMPREHENSIVE INCOME AND RELATED NOTES

Issue 3.1: Possible Presentation Schemes

Presentation Schemes Based on Staff Recommendations (No Recycling)

68. In Part 2, the staff recommends that the Boards reaffirm that the cohesiveness principle (presentation based on the same functional sections/categories in each of the financial statements) be the governing principle. In Part 1, the staff recommends that components of comprehensive income be presented separately based on whether the changes in assets and liabilities are due to remeasurements.

69. A matrix that combines the two presentation schemes can be presented as follows:

	Total	Non-Remeasurements	Remeasurements
	(a)=(b)+(c)	(b)	(c)
Business Income			
Operating Income	XXX	XXX	XXX
Investing Income	XXX	XXX	XXX
Total Business Income	***XXX***	***XXX***	***XXX***
Financing Expenses			
Financing Expenses	XXX	XXX	XXX
Financing Income	(XXX)	(XXX)	(XXX)
Net Financing Expenses	***XXX***	***XXX***	***XXX***
Total Discontinued Operations	***XXX***	***XXX***	***XXX***
Total Income Taxes	***XXX***	***XXX***	***XXX***
Total Comprehensive Income	**XXX**	**XXX**	**XXX**

70. As part of Phase A decisions, the Boards decided that the statement of comprehensive income be presented for the current and prior fiscal year. In order to present the above matrix for two periods, the staff considered the following alternatives:

Alternative A: Consider the matrix in its entirety as the statement of comprehensive income and present two matrices for the current and prior period on the face of the statement.

Alternative B: Consider the "Total" column as the statement of comprehensive income and present two columns, representing the current and prior period, on the face of the statement. Present two matrices for the current and prior period in the notes.

Staff Recommendation

71. The staff is of the view that comparability over time is an important qualitative characteristic and, therefore, recommends that Alternative B should be pursued. This note disclosure is illustrated in Memorandum 44D/Paper 6D.

Presentation Schemes If Recycling is Retained (Information Only)

72. As discussed in Part 2, the staff acknowledges that Board members may be inclined to retain the presentation of net income while maintaining the cohesiveness principle as the governing principle. All OCI items are remeasurements (as defined in Part 1). Therefore, the staff is of the view that the matrix in paragraph 69 can be modified to present net income, such as follows.

	Non-remeasurements (a)	Remeasurements (Non-OCI) (b)	Net Income (c)=(a)+(b)	Remeasurements (OCI) (d)	Total (e)=(c)+(d)
Business Income					
Operating Income	XXX	XXX	XXX	XXX	XXX
Investing Income	XXX	XXX	XXX	XXX	XXX
Total Business Income	***XXX***	***XXX***	***XXX***	***XXX***	***XXX***
Financing Expenses					
Financing Expenses	XXX	XXX	XXX	XXX	XXX
Financing Income	(XXX)	(XXX)	(XXX)	(XXX)	(XXX)
Net Financing Expenses	***XXX***	***XXX***	***XXX***	***XXX***	***XXX***
Total Discontinued Operations	***XXX***	***XXX***	***XXX***	***XXX***	***XXX***
Total Income Taxes	***XXX***	***XXX***	***XXX***	-	***XXX***
Total Comprehensive Income	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

*Because OCI does not arise directly from any tax assets or liabilities (current or deferred), income taxes for this column would not be presented (as the amount would always be zero).

73. Similar to the discussions in paragraph 70, this matrix could be viewed as the statement of comprehensive income or as a disclosure in the notes to the financial statements.

Question 3.1a: ***Should remeasurement information be presented in the notes to the financial statements?***

Question 3.1b: ***Should the face of the statement of comprehensive income <u>not</u> be presented in any type of matrix format for any accounting period so that comparative statements can be presented side by side?***

Issue 3.2: Single Statement or Two Statements

Relation to Phase A Decisions

74. In March 2006, the IASB issued an Exposure Draft related to Phase A decisions. In that Exposure Draft, the IASB stated a clear preference for a single-statement approach but permitted the two-statement approach.

75. The staff notes that four IASB members expressed alternative views when issuing the Phase A Exposure Draft because they disagreed with the decision to permit the two-statement approach. Furthermore, the IASB noted in the Exposure Draft that the decision would be revisited in Phase B. The FASB has not changed its April 2005 decision to require a single statement of comprehensive income and eliminate the alternatives in Statement 130, although it decided not to issue an Exposure Draft on its Phase A decisions.

Elimination of the Mechanism of Recycling and the Single Statement

76. In Part 2, the staff recommends that the cohesiveness principle continue to be the governing principle in presenting financial statements. The implication of that recommendation would be that the statement of comprehensive income cannot be presented in two statements, where one statement ends with net income and the other statement reconciles net income and comprehensive income.

Staff Recommendation

77. The staff plans to draft the Phase B Preliminary Views/Discussion Paper based on the premise that by the time the Phase B Statement is finalized, a single statement of comprehensive income will be required. Thus, the staff recommends that at this time (or at least prior to issuance of the discussion document) the FASB reaffirm its decision to eliminate the presentation alternatives in Statement 130 and that the IASB indicate its preference for presentation of a single statement of comprehensive income in the long-term. The staff notes that if the IASB is willing to change its decision (that is, eliminate the presentation alternative) in Phase A to **require** the presentation of a single statement of comprehensive income at this time, it would not need to redeliberate Phase A issues separately from the FASB.

Question 3.2: ***Should the Phase B Preliminary Views/Discussion Paper be drafted based on the premise that by the time the Phase B Statement is finalized, a single statement of comprehensive income will be required?***