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| Project | Financial Statement Presentation |
| Topic | Project Scope—OCI and recycling |

Purpose

1. The purpose of this paper is to consider whether the topics of other comprehensive income (OCI) and recycling¹ should be addressed at this time. This paper provides alternatives for how OCI and recycling may be addressed, either by extending the scope of the financial statement presentation (FSP) project or by running an accelerated parallel project.

Background

2. In June 2008 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) [collectively, boards] decided to **remove from the scope** of the FSP project consideration of whether to change existing requirements that describe:
 - (a) which items must or may be presented in OCI outside of profit or loss; and
 - (b) whether, when and how OCI items must be reclassified to profit or loss.

¹ Recycling involves reporting the same item of income, expense, gain or loss in two different periods in two different types of performance measures, first in OCI (below the net income line) and subsequently in income (above the net income line).

This paper has been prepared by the technical staff of the FAF and the IASCF for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of U.S. GAAP or IFRSs do not purport to be acceptable or unacceptable application of U.S. GAAP or IFRSs.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

Why reconsider the scope of the Financial Statement Presentation project?

3. Paragraphs 4—11 explain why the boards are being asked to reconsider the scope of the FSP project.

Respondent feedback to the discussion paper

4. The boards published the discussion paper *Preliminary Views on Financial Statement Presentation* in October 2008 (FSP discussion paper). In their remarks on the discussion paper, some respondents commented on the change in scope of the FSP project. Those respondents requested the boards consider OCI and recycling in its deliberations. A typical comment is:

We understand why the boards have limited the scope of the proposals [in the discussion paper]; an incremental approach provides the best chance of progress in line with the 2011 target for the roadmap. However, we believe a number of issues ought to be dealt with sooner rather than later. In particular, the boards need to agree on the purpose of the income statements or statement of comprehensive income and how gains and losses should be categorized therein before final decisions can be made about presentation. Companies and users of accounts place a great deal of emphasis on the income statement and net income and clear underlying principles in the reporting of gains and losses are therefore vital. Deferring consideration of issues such as Other Comprehensive Income (OCI) and recycling continues to cause problems elsewhere as it is difficult to assess the impact of other proposals, for example on hedging, pensions accounting and fair value changes, without knowing how the income statement will reflect such items. This project was originally instituted to deal with these particular issues and it raises questions about the use of the boards' limited resources and priorities to have issued a Discussion Paper that does not address these questions when there are other pressing matters for the boards to address.

Project level developments at the IASB

5. Subsequent to the publication of the FSP discussion paper, the IASB has made tentative decisions in two projects that have put pressure on the boards' decision not to address OCI and recycling in the short-term as part of Phase B of the FSP project.
6. The IASB's project on post-employment benefits has highlighted the discomfort some Board members have with presenting changes in pension obligations within profit and loss. In March 2009 the IASB tentatively decided to report

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some 'remeasurement' items related to post-employment benefits on a net-of-tax basis within profit or loss (eg changes in actuarial assumptions and changes in the fair value of plan assets). That presentation decision eliminates recycling for those items.

7. In June 2009 (as part of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*) the IASB tentatively decided to permit an entity, on its initial recognition of investments in equity instruments that are not held for trading, to make an irrevocable election to present changes in the fair value of those investments in OCI. If that election is made, dividends associated with those equity instruments also would be presented in OCI and no transfers from OCI to profit or loss (ie recycling) would be permitted.

Project level developments at the FASB

8. In July 2009 the FASB will consider an approach to classification of financial instruments that would require an entity to present within OCI changes in the fair value of a particular category of financial instruments. Dividends and interest income associated with those financial instruments would be presented in profit or loss. The FASB will also consider whether transfers from OCI to profit or loss (ie recycling) would be permitted (eg once an exchange transaction has taken place). OCI and its components would be displayed in the statement of comprehensive income (SCI) below profit or loss, net of tax and would no longer be permitted to be displayed within the statement of changes in equity.

Feedback from IASB advisory groups

The Standards Advisory Council (SAC) and the Analyst Representative Group (ARG)

9. In June 2009 the IASB requested feedback from two of its advisory groups as to whether the IASB should extend (return) the scope of the FSP project to one that considers OCI and recycling. Both the SAC and the ARG were unanimous in their recognition that both OCI and recycling need to be addressed. However, there was much divergence as to how (and whether or when) those topics should be incorporated in the FSP project.

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10. Many argued that the issues involving OCI and recycling were so important that their resolution should take priority in the FSP project. However, others argued that there was enough value added in the proposals in the FSP discussion paper that completing that work should be the priority. Others noted that resolution of the issues involving OCI and recycling will be contentious and that addressing those topics could create significant tension amongst constituents. Consequently, they did not think that the boards could sufficiently address OCI and recycling in time to meet the June 2011 deadline.
11. Many participants expressed concern that work in other projects (specifically post-employment benefits and financial instruments)
 - (a) is moving at a faster pace than the FSP project; and
 - (b) decisions are being made about presentation in those projects that are not consistent with the boards' proposals in the FSP discussion paper.Those participants expressed a preference for developing a comprehensive, conceptually sound solution for OCI and recycling as part of the FSP project.

Staff analysis and recommendation

12. The staff recognise that several projects are looking to the FSP project for presentation answers and, in the absence of those answers, those projects are developing their own presentation solutions. That ad-hoc approach may result in inconsistent presentation of OCI items, thereby reducing the usefulness of the information provided. The staff is also aware of the importance of completing Phase B of the FSP project by the June 2011 deadline. The staff think that it is unrealistic to address OCI and recycling *comprehensively* and still meet that deadline.
13. In order to address OCI comprehensively, the staff would need to gain a thorough, standards-level understanding of how and why specific items are segregated in OCI. That understanding could lead to the development of
 - (a) a consistent principle for recognising items directly in profit or loss or OCI;

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- (b) a definition (perhaps at the conceptual framework level) for **performance reporting**; and
 - (c) substantive consequential amendments to the standards that provide the recognition and measurement requirements for items currently presented within OCI.
14. The topics described above are controversial; their resolution will create tension amongst our constituents. Consequently, the staff believe it will take at least two years of significant deliberations to comprehensively address OCI and recycling.
15. Further, there is a high probability that the FSP project may arrive at a conceptual solution for OCI and recycling that is inconsistent with the decisions that the boards are making in the near term in their respective projects on financial instruments (and, for the IASB, post-employment benefits). The FSP staff question the likelihood of the boards re-examining their OCI and recycling decisions made in the context of the financial instruments projects once those decisions are finalised.

Recommended alternative: limited scope addition to Phase B of the FSP project

16. However, the staff think that it is possible to resolve *some* of the presentation issues involving the SCI, OCI and recycling with a **limited scope addition** to Phase B. The proposed limited scope addition **will not** significantly alter the timeline to completion of Phase B of the FSP project.
- (a) The limited scope addition will focus on restructuring the SCI. **That restructuring should provide solutions for presentation issues involving OCI and recycling that are actively being contemplated in other projects.**
 - (b) The limited scope addition will **not** attempt to derive a conceptual basis for OCI items nor will it address whether items **currently** presented within OCI should be recycled.
17. The limited scope addition to the FSP project for restructuring the SCI will:
- (a) differentiate between OCI items that are recycled and those that are not; and

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- (b) provide a basis for other projects (ie post-employment benefits and financial instruments) that are also addressing OCI and recycling to move forward with their deliberations.

Said differently, the FSP project will provide the ‘drawers’ for presentation on the face of the SCI. It will be up to the boards to determine in individual projects how to use those ‘drawers.’

- 18. If the boards agree with the staff recommendation, the staff intend to present papers in **September** that address the restructuring of the SCI. Once the boards have reached tentative decisions on the topics in September, the staff will prepare a ‘request for views’ (to be provided on both the IASB and FASB websites) on those tentative decisions. The request for views will be posted in **October** for a 30-day comment period.
- 19. Further information on the effect a limited scope addition might have on the FSP project plan is contained in the appendix to this paper. That project plan is repeated and discussed in more detail in agenda paper 17/63B.

Other alternatives considered

- 20. The staff considered three alternate approaches for addressing OCI and recycling. One alternative involved running a project on OCI and recycling parallel (but at an accelerated pace) to the FSP project. The staff decided against that alternative on the grounds that shared aspects of the two projects (for example, section and category definitions) made it impractical to separate the two projects and expect to achieve a cohesive FSP model over the long term.
- 21. The second alternative involved suspending work on the boards’ proposals as described in the discussion paper and, instead, returning the focus of the project to the broader topic of performance reporting. That approach would have involved addressing the topics of OCI and recycling as components of performance reporting. The staff decided against that alternative because it does not believe a comprehensive project on performance reporting can be completed by June 2011. Additionally, the staff believe there is value in continuing its work to build on the proposals presented in the FSP discussion paper.

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22. The third alternative considered was to **not** address OCI or recycling at this time. The staff rejected that alternative because a format for the SCI (within the context of the FSP model) is needed to resolve issues in other high priority projects. Consequently, it is not feasible to wait to address the presentation issues involving the SCI.

Staff recommendation and questions for the boards

Staff recommendation

The staff recommend the boards address aspects of OCI and recycling at this time. To address those topics, the staff propose a limited scope extension to restructure the SCI. The staff also propose the development of a 'request for views' once the boards have reached tentative decisions on the restructured SCI.

Question 1

Do the boards agree to address aspects of OCI and recycling at this time? If not, why?

Question 2

If yes, do the boards support the staff recommendation to extend the scope of the FSP project to include restructuring the SCI? If not, why?

Question 3

If yes, do the boards also support the development of a 'request for views' once the boards have reached tentative decisions on the SCI? If not, why?

Appendix: Project Timetable

| Timing | No change in scope | If scope is extended |
|--|--|---|
| July 27 | Meeting with JIG and FIAG | Meeting with JIG and FIAG |
| August 7 (IASB) August 12 (FASB) | | Board meeting on key issues <ul style="list-style-type: none"> • Classification: definitions and management approach • Scope (financial institutions)?? |
| September 1 (IASB) September 2 (FASB) | Analyst field test survey results | Analyst field test survey results |
| September 14-18 | Board meetings on key issues <ul style="list-style-type: none"> • Classification: definitions and management approach • Disaggregation by nature and function, notes v face • Statement of cash flows • Reconciliation schedule | Board meetings on key issues <ul style="list-style-type: none"> • Statement of comprehensive income (OCI, recycling, single statement, income taxes, disc op) • Statement of cash flows • Reconciliation schedule |
| Early October | | Post <i>Request for Views</i> with 30 day comment period |
| October 19-23 | Board meetings on other issues <ul style="list-style-type: none"> • Statement of financial position, related notes • Discontinued Operations • Income taxes • Statement of comprehensive income (single statement, OCI, unusual or infrequent items) • Noncontrolling interests | Board meetings on other issues <ul style="list-style-type: none"> • Statement of financial position, related notes • Disaggregation by nature and function, notes v face • Unusual, infrequent items • Noncontrolling interests |
| October 26-27 | Joint Board meeting <ul style="list-style-type: none"> • Purpose of each F/S and relation to each other • Divergent views on key issues • Content of ED (vs IAS 1) | Joint Board meeting <ul style="list-style-type: none"> • Purpose of each F/S and relation to each other • Divergent views on key issues • Content of ED (vs IAS 1) |
| November 16-20 | Draft rest of papers | Draft papers Board meeting on <ul style="list-style-type: none"> • Whatever issues we didn't get to • Divergent views on key issues (if not done at joint) |
| November 30-Dec 4 | -- | Review comment letters on <i>Request for views</i> ; affirm/modify OCI, recycling decisions |
| December 14-18 | Board meetings on <ul style="list-style-type: none"> • Unresolved key issues • Remaining issues: FX, Basket transactions, Segments, Disclosures, Application guidance | Board meetings on <ul style="list-style-type: none"> • Unresolved key issues • Remaining issues: FX, Basket transactions, Segments, Disclosures, Application guidance |

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| January | Begin compiling the ED Prepare JIG/FIAG papers Board meetings on <ul style="list-style-type: none"> • Remaining issues • Nonpublic entities • Transition, effective date | -- Prepare JIG/FIAG papers Board meetings on <ul style="list-style-type: none"> • Remaining issues (what we won't get to in December) • Nonpublic entities |
| February | -- JIG/FIAG input on tentative decisions -- | Begin compiling the ED JIG/FIAG input on tentative decisions Board meetings on: <ul style="list-style-type: none"> • Transition, effective date • Remaining or unresolved issues |
| February & March | Drafting, sweep if needed, Ballot | Drafting |
| March Joint meeting (March 23-24) | -- | Sweep if needed |
| April | Publish ED | Ballot |
| May | -- | Publish ED |
| May–August | Comment period | Comment period (June-Sept) |
| September–October | Analyze comments | Analyze comments (Oct-Nov) |
| November | Roundtable meeting | Roundtable meeting |
| December | Begin redeliberations | Begin redeliberations |
| 2011 | | |
| January–March | Continue redeliberations | Continue redeliberations |
| March–May | Drafting, balloting | Drafting, balloting |
| June | Publish final Standard | Publish final Standard |