May 2010

Exposure Draft

Snapshot: Presentation of Items of Other Comprehensive Income (Limited amendments to IAS 1)

This snapshot is a brief introduction to a proposed change in IAS 1 *Presentation of Financial Statements* regarding the presentation of items contained in other comprehensive income (OCI) in financial statements. It provides an overview of the proposals published for public comment by the International Accounting Standards Board (IASB) on 27 May 2010.

Objective:	To improve the consistency and clarity of the presentation of items of comprehensive income. The IASB and the US Financial Accounting Standards Board (FASB) are undertaking this project together.
Status:	The IASB published an exposure draft on the presentation of items in OCI. The proposals have important interactions with proposals that are part of the IASB's projects on *financial instruments* and *post-employment benefits*.
Comment deadline:	The exposure draft is open for public comment until 30 September 2010.
Next steps:	We are undertaking ongoing outreach activities that will continue during the comment period to ensure broad input from a wider range of interested parties. The responses will be discussed in public Board meetings and assist the Board in deciding how to proceed with the proposals.

International Accounting Standards Board®

What is OCI?

The statement of comprehensive income lists all income and expenses of an entity.

A set of financial statements includes several individual statements, such as the statement of comprehensive income (often referred to as P&L or income statement), the statement of financial position and cash flow statement.

All income and expense items are required to be presented in the profit or loss section of the statement of comprehensive income unless an IFRS requires that it be presented in a separate section called Other Comprehensive Income (OCI).

What is the scope of the exposure draft?

The exposure draft proposes limited amendments to IAS 1 regarding the presentation of items contained in Other Comprehensive Income (OCI) and their classification within OCI.

In addition, the exposure draft proposes to change the title of the statement of comprehensive income to 'statement of profit or loss and other comprehensive income' while continuing to permit the use of other titles for this statement.

The exposure draft does not address which items are to be presented in OCI.

The IASB is accelerating this element of its project on financial statement presentation because of the important interactions with other projects on the IASB's agenda, in particular with its financial instruments and post-employment benefits project.

Interaction with other projects

Financial Instruments

IFRS 9 permits an entity to make an irrevocable election to present in OCI changes in the fair value of any investment in equity instruments that is not held for trading. The two remaining phases of the financial instruments project, impairment and hedging, may add further items that would be presented in OCI. The Board has tentatively decided that if a financial liability is designated under the fair value option, the effect on the fair value attributable to changes in liability's credit risk will be presented in OCI.

Post-employment benefits

The exposure draft *Defined Benefit Plans* that was published by the IASB on 29 April 2010, includes proposed requirements to present in OCI remeasurements of pension plan assets and liabilities.

The exposure draft also proposes to remove the option of using the corridor approach to account for actuarial gains and losses, thereby increasing the use of OCI for those items.

Why is a change needed?

The main issues that the IASB aims to address with the proposed amendments are the lack of distinction between different items in OCI and the lack of clarity in the presentation of items in OCI.

1. Lack of distinction between different items in OCI

A range of very different items are presented in OCI without any distinctions. However, some of the items presented in OCI can have a considerable effect on the overall financial performance of an entity.

For instance: the effect of changes in pension obligations, fixed asset revaluations, cash flow hedges, changes in the carrying amount of strategic equity investments, foreign currency translation differences and, while IAS 39 remains effective, changes in the carrying value of 'available-for-sale' securities.

Why is a change needed? continued

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

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

To address this issue, the IASB has attempted to find a common conceptual basis but feedback suggests that it would be very difficult to do so in the short term. However, the Board agrees with users' requests for greater clarity in the presentation of OCI items as expressed by many respondents to the discussion paper on financial statement presentation.

The IASB therefore proposes to group items presented in OCI on the basis of whether they are at some point reclassified ('recycled') from OCI to profit or loss or not.

2. Lack of consistency in presentation

Existing requirements give entities an option to present items of OCI either within the statement of comprehensive income or as a separate statement.

However, the IASB believes that items presented in the profit or loss section and OCI contain important and interrelated information about the financial performance of an entity. For instance, actuarial gains and losses related to pension obligations may be presented in OCI and yet they can have a considerable impact on the overall financial performance of an entity.

The fact that entities may choose to present items in OCI in a separate place creates an unnecessary level of complexity and more importantly it may make it difficult for users to understand what these statements purport to represent and how they interact with another.

The IASB therefore proposes that the profit or loss section and OCI should be displayed as separate components within an overall statement of comprehensive income.

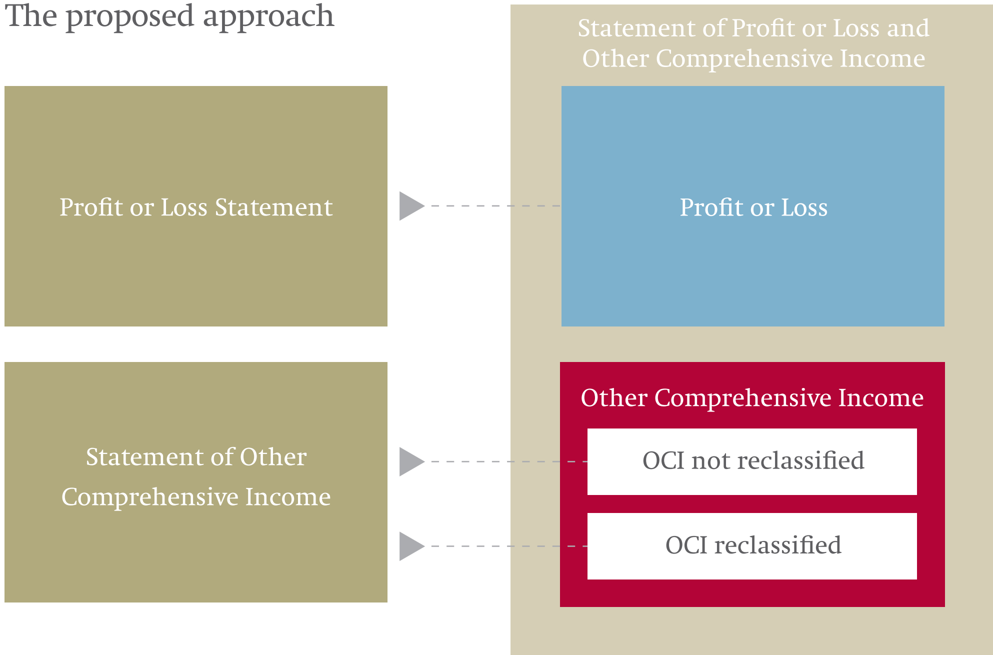
3. Lack of comparability between IFRS and US GAAP

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

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

The proposals would make it easier for user to compare the financial statements prepared under US GAAP and IFRSs.

The proposed approach



What is the IASB proposing?

Profit or loss and OCI displayed consecutively

The IASB believes it is important that all income and expenses that are components of the total non-owner changes in equity should be presented together. It therefore proposes that the profit or loss section and OCI should be displayed as separate components within an overall statement of profit or loss and other comprehensive income.

Preservation of profit or loss

- The IASB recognises the importance of profit or loss (the net income line) and is committed to maintaining this important number.
- There will be no changes to how earnings per share is calculated. These calculations will remain on the basis of profit or loss.
- The attribution of profit or loss between the parent shareholders of the entity and its non-controlling interest will also remain.

Grouping items on the basis of whether they are reclassified from OCI to profit or loss

This will address the issue that some of the items that are presented within OCI, such as cash flow hedges, are eventually re-presented as part of the profit or loss section (IAS 1 calls this *reclassification*) whilst others, such as asset revaluations, are not.

Flexible presentation

The proposals do not dictate how the statement of profit or loss and other comprehensive income would be presented.

Apart from the proposed titles, totals and subtotals in this amendment, entities are still allowed to use titles for the statement other than those used in this example. Entities are also allowed to present additional line items, headings and subtotals in the statement when it is relevant to an understanding of the entity's financial performance.

Illustrative examples

The proposals provide a framework for the presentation of the statement of profit or loss and other comprehensive income.

Example 1

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

PROFIT AND LOSS	THIS YEAR	LAST YEAR
REVENUE	390,456	366,074
Cost of sales	(245,854)	(215,698)
GROSS PROFIT	144,602	150,376
Other income	20,667	15,253
Distribution costs	(8,954)	(7,584)
Administrative expenses	(20,045)	(18,498)
Other expense	(2,076)	(1,956)
OPERATING PROFIT	134,194	137,591 ◄
Finance costs	(11,504)	(13,685)
Finance income	3,488	2,954
Share of profit of associates	35,089	27,345
PROFIT BEFORE TAX	161,267	154,205 ◄
Income tax expense	(37,853)	(38,058)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	123,414	116,147
Loss for the year from discontinued operations	0	0
PROFIT OR LOSS	123,414	116,147 ◄

PROFIT ATTRIBUTABLE TO	THIS YEAR	LAST YEAR
Owners of the Company	105,587	104,584
Non-controlling interest	17,827	11,563
	123,414	116,147
EARNINGS PER SHARE		
Basic earnings per share	0.81	0.75
Diluted earnings per share	0.69	0.60

OTHER COMPREHENSIVE INCOME, NET OF TAX	THIS YEAR	LAST YEAR
Items that will not be reclassified subsequently to profit or loss		
Gain (loss) on strategic equity securities (net of 1,560 and 1,963 tax benefit)	3,640	(4,581)
Gain (loss) on property revaluation (net of 2,662 tax)	6,212	0
Actuarial gains (losses) on defined benefit pension plans (net of 14,876 tax benefitand 9,391 tax)	(34,711)	21,914
Total items never reclassified to profit or loss	(24,859)	17,333 ◄
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations (net of 4,640 tax and 5,537 tax benefit)	10,827	(12,921)
Cash flow hedges (net of 559 tax benefit and 2,838 tax)		
Gains (losses) arising during the period (net of 1,489 tax benefit and 2,416 tax)	(3,476)	5,639
Reclassification of gains included in profit or loss (net of 930 and 422 tax)	2,170	984
Share of other comprehensive income of associates	4,105	(2,499)
Total items that may be reclassified to profit or loss subsequently	13,626	(8,797) ◄
OTHER COMPREHENSIVE INCOME	(11,233)	8,536
TOTAL COMPREHENSIVE INCOME	112,181	124,683 ◄

TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO	THIS YEAR	LAST YEAR
Owners of the Company	101,444	110,554
Non-controlling interest	10,737	14.129
	112,181	124,683

Example 2

STATEMENT OF COMPREHENSIVE INCOME

PROFIT AND LOSS	THIS YEAR	LAST YEAR
REVENUE	390,456	366,074
Cost of sales	(245,854)	(215,698)
GROSS PROFIT	144,602	150,376
Other income	20,667	15,253
Distribution costs	(8,954)	(7,584)
Administrative expenses	(20,045)	(18,498)
Other expense	(2,076)	(1,956)
OPERATING PROFIT	134,194	137,591 ◄
Finance costs	(11,504)	(13,685)
Finance income	3,488	2,954
Share of profit of associates	35,089	27,345
PROFIT BEFORE TAX	161,267	154,205 ◄
Income tax expense	(37,853)	(38,058)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	123,414	116,147
Loss for the year from discontinued operations	0	0
NET INCOME	123,414	116,147 ◄

OTHER COMPREHENSIVE INCOME	THIS YEAR	LAST YEAR
Items that will not be reclassified subsequently to profit or loss		
Gain (loss) on strategic equity securities	5,200	(6,544)
Gain (loss) on property revaluation	8,874	0
Actuarial gains (losses) on defined benefit pension plans	(49,587)	31,305
Income tax	10,654	(7,428)
Total items never reclassified to net income	(24,859)	17,333 ◄
Items reclassified subsequently to net income upon derognition		
Exchange differences arising on translating foreign operations	15,467	(18,458)
Cash flow hedges		
Gains (losses) arising during the period	(4,965)	8,055
Reclassification of gains included in net income	3,100	1,406
Share of other comprehensive income of associates	4,105	(2,499)
Income tax	(4,081)	2,699
Total items reclassified to net income upon derecognition	13,626	(8,797) ◄
OTHER COMPREHENSIVE INCOME	(11,233)	8,536
TOTAL COMPREHENSIVE INCOME	112,181	124,683 ◄

NET INCOME ATTRIBUTABLE TO	THIS YEAR	LAST YEAR
Owners of the Company	105,587	104,584
Non-controlling interest	17,827	11,563
	123,414	116,147
EARNINGS PER SHARE (BASED ON NET INCOME)		
Basic earnings per share	0.81	0.75
Diluted earnings per share	0.69	0.60
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO		
Owners of the Company	101,444	110,554
Non-controlling interest	10,737	14.129
	112,181	124,683

What are the effects of the IASB's proposals?

Enhanced clarity

Preserving the distinction between profit or loss and OCI, by requiring them to be presented in separate sections, will assist users in assesing the relevance of individual income and expense items included in OCI and to assess the potential effects that some OCI items may have on profit or loss.

Better assesment of effects of OCI items

The distinction between OCI items that are never recognised in profit or loss and those that are subject to reclassification (recycling) will enable users to assess more easily the effect of OCI items on the financial performance of an entity.

The proposed change will allow users to identify clearly the amounts in OCI that are not reclassified. US GAAP requires that all amounts in OCI eventually be reclassified to profit or loss, and so the differentiation will also facilitate a comparison between IFRS financial statements and US GAAP financial statements.

Some users prefer a 'clean surplus' approach to performance measurement because it ensures that all accounting income and expenses, whatever their source, nature, persistence, relative reliability or other characteristics are presented cohesively and transparently. Presenting non-reclassified items separately enables a total of profit or loss and non-reclassified OCI items to be presented that satisfies such a clean surplus notion.[1]

Profit or loss remains

The IASB's proposals maintain profit or loss (net income) as an important number in the financial statements. However, there is still a level of flexibility in presentation that allows preparers to present the information in a format that they deem most appropriate.

1 'Clean surplus' means that all changes in shareholder equity that do not result from transactions with shareholders (such as dividends, share repurchases or share offerings) are reflected in the income statement.

Response to the discussion paper on financial statement presentation

In October 2008, the IASB and FASB published a joint discussion paper, *Financial Statement Presentation.* One of the questions in the paper asked for views on presenting a single statement of comprehensive income. Responses were mixed. There was general support from investors and auditors for a single statement whilst many preparers raised concerns.

Concern	IASB response
A single statement of comprehensive income would undermine profit or loss by making it a subtotal in the statement.	1. The IASB has made clear that the proposals are not the first step in eliminating profit or loss. There is no hidden agenda. 2. The proposals outline the two components of the statement of comprehensive income. There will still be a clear distinction between profit or loss and OCI. 3. Earnings per share will continue to be based on profit or loss and the allocation of profit or loss will continue to be displayed.
Presenting total comprehensive income as the last number in the statement would confuse users.	1. A large majority of investors that responded to that specific question supported presenting a single statement. 2. The proposal maintains the distinction between profit or loss and OCI. 3. The split between reclassified and non-reclassified items will also improve clarity. 4. The proposals give preparers flexibility in how profit or loss and OCI are presented, including the ability to use terminology that reflects the nature of the entity. The illustrative examples included in this *snapshot* give a flavour of how the information could be presented.

Concern	IASB response
There is a lack of a conceptual basis for OCI. Until that is resolved no change should be made to its presentation.	The IASB acknowledges that further work is needed to develop a clear principle for measuring performance. However, this could take a substantial amount of time to resolve and should not stop improvements being made to presentation of these items in the meantime.
Items in OCI are different from items in profit or loss.	The IASB agrees that these items can have different qualities, which is why IFRSs require, or allow, them to be presented in separate parts of the income statement. However, there are differences of opinion as to whether some of the items that are presented in OCI should be presented in profit or loss. Similarly, some commentators think that some of the items that are presented in profit or loss should be presented in OCI. What remains clear is that all of these items are accounting gains or losses that affect equity.

Next steps

The requirements that are proposed in the exposure draft of amendments to IAS 1 will be carried forward into the project on financial statement presentation.

The exposure draft includes questions on the proposals. Respondents are invited to comment on any or all of those questions and to comment on any other issues that the IASB should consider in finalising the proposals. The IASB will consider the comments it receives on the proposals in public meetings as announced on the IASB website.

The deadline for comments on the exposure draft is 30 September 2010. To view the exposure draft and submit your comments visit www.iasb.org.

Further information including a frequently asked questions document is available on the project web page at http://go.iasb.org/OCI-presentation

Notes

International Accounting Standards Committee Foundation (IASC Foundation)

30 Cannon Street | London EC4M 6XH | United Kingdom
Telephone: +44 (0)20 7246 6410 | Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org | Web: www.iasb.org

For further information about the IASC Foundation, IASB, copies of International Financial Reporting Standards, International Accounting Standards, exposure drafts and other publications, including details of IASB subscription services, please contact our Publications Department on telephone: +44 (0)20 7332 2730 or email: publications@iasb.org

Printed on 100 per cent recycled paper