



To David Sidwell, Chairman - Due Process Oversight Committee

From Alan Teixeira, Director of Technical Activities
+44 (20) 7246 6442 ateixeira@ifrs.org

Subject **Amendments to IAS 1 *Presentation of Financial Statements***

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In April the Board is planning to issue amendments to IAS 1 *Presentation of Financial Statements* regarding the presentation of items contained in other comprehensive income (OCI). The changes to the reporting of other comprehensive income take effect on 1 January 2012. Early adoption will be permitted.

I am writing to you to summarise the steps the Board has taken to ensure that the amendments to IAS 1 have been developed in full compliance with the Board's due process requirements. I have also identified the steps the Board and staff have taken to address concerns raised during the development of the IFRS.

Overview of the improvements

Amendments to IAS 1 *Presentation of Financial Statements*

The amendments to IAS 1 concern the presentation of items contained in OCI. The amendments will improve how components of OCI are presented, because they make a clearer distinction between items that are eventually reclassified (recycled) to profit or loss. The amendments also embed the principle that profit or loss (net income) and OCI must be displayed together.

The Board is publishing the amendments in conjunction with its amendments to IAS 19. Those amendments use OCI for the presentation of some components of the changes to pension obligations. The Board did not want to publish those amendments without also improving how OCI is presented.

Areas likely to be controversial

The exposure draft proposed that profit or loss and other comprehensive income be presented in a single statement. That proposal has proven to be controversial in the past and the current exposure draft drew a strong response from some parties, particularly in Europe. Their concerns relate to perceptions about how users will interpret ‘the bottom line’.

The staff and Board undertook additional outreach to meet with those parties who had made strong representations to the Board. The Board decided not to require a single statement, but makes it clearer that profit or loss (net income) and OCI must be displayed together. The amended IAS 1 will provide entities with some flexibility about how they do that. The FASB is making similar, but more extensive, changes to its requirements to bring its reporting into line with IFRSs.

The changes from the exposure draft are likely to mean that the final amendments are uncontroversial.

Due Process Concerns

I am not aware of any matters that the Due Process Oversight Committee should be concerned about in relation to the forthcoming amendments to IAS 1.

Due process

The IASB Due Process Handbook includes mandatory and non-mandatory steps that need to be considered before an exposure draft is published or a new IFRS or amendments to existing IFRSs are issued. The Board is required to explain why it has not undertaken any of the non-mandatory steps (ie the ‘comply or explain’ approach).

Mandatory steps

Publishing an exposure draft, with a basis for conclusions and alternative views if relevant

The Board published the exposure draft *Presentation of Items of Other Comprehensive Income: Proposed amendments to IAS 1* in May 2010. The exposure draft included a basis for conclusions. The exposure draft had a five-month comment period, with comments due on 30 September 2010.

Fourteen Board members approved the exposure draft. Jan Engström voted against its publication. His alternative views were published in the exposure draft.

Reviewing comments made within a reasonable period on documents published for comment

139 comment letters were received on the exposure draft. The comment period ended on 30 September 2010; a comment letter summary was presented to the Board at the October 2010 Board meeting. Comments were also analysed in further detail in November 2010.

Consulting the Advisory Council on major projects

Issues relating to other comprehensive income were discussed as part of the Advisory Council's discussion of the Financial Statement Presentation project in November 2007.

Including a basis for conclusions in the IFRS

There will be a section in the basis for conclusions of IAS 1 describing the amendments made in this project.

Non-mandatory steps

Publishing a discussion document (eg a discussion paper)

In October 2008 the IASB and FASB published for public comment a discussion paper, *Preliminary Views on Financial Statement Presentation*. The comment period ended in 14 April 2009. That discussion paper proposed that entities should be required to present comprehensive income and its components in a single statement of comprehensive income.

During 2009 and 2010 the Board developed proposals to replace IAS 1 (and the FASB developed similar requirements to replace its equivalent requirements). However, the Boards gave priority to other MoU projects and has not proceeded with those proposals. The amendments to OCI that are the subject of this report are a separate proposal. The 2008 discussion paper is relevant to these amendments.

Establishing working groups or other types of specialist advisory groups

The Financial Statement Presentation project has a working group and its members were consulted on these amendments.

Holding public hearings and undertaking field tests (both in developed countries and in emerging markets)

The Board decided not to hold separate public hearings on the exposure draft proposals given their narrow scope.

Additional steps taken

In addition to the activities outlined in the due process handbook, the staff and board members undertook additional outreach.

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Before and after the publication of the exposure draft, preparers from a variety of industries, auditors, users, and standard setters from all over the world were consulted to gain their feedback on the proposed amendments to IAS 1.

Drafts of the IFRSs were sent for a fatal flaw review to a selected group of audit firms and preparers. Again, these preparers were from a variety of industries and geographic locations. National standard-setters were also given access to the drafts.

This topic was presented to the Global Preparers Forum. Staff and Board members also discussed the topics at conferences hosted by the IASB and other organisations.

A project summary and feedback statement will also be provided as public documents to accompany the publication of the amendments. These documents will explain in simple language the improvements made to IFRSs and the effects these changes will have for preparers, auditors and users.

We will not be publishing an effect analysis because the amendments are not significant.

Re-exposure

The IASB Due Process Handbook states that the Board must consider whether a proposal should be re-exposed by:

- Identifying substantial issues that emerged during the comment period on the exposure draft that it had not previously considered;
- assessing the evidence that it has considered;
- evaluating whether it has sufficiently understood the issues and actively sought the views of constituents; and
- considering whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.

The Board has considered the changes made from the exposure draft and decided that it was not necessary to re-expose any aspects of the proposals. The largest change was the removal of the requirement to present other comprehensive income in one statement with profit or loss information. The Board decided to permit entities to present profit or loss and OCI in two consecutive statements. Since this change allows more flexibility for preparers, re-exposure was not necessary.

Summary

The Board considered all of these matters at a public meeting and decided to ask the staff to prepare the IFRS for balloting. The staff are in the process of preparing those ballot drafts and our plan is to issue the documents in April.