STAFF PAPER

18 – 22 February 2013

REG IASB Meeting

Project	Conceptual Framework
Paper topic	ASBJ Research on the use of OCI
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Background

1. In 2012, the IASB asked the Accounting Standards Board of Japan (ASBJ) to undertake research on the use of other comprehensive income (OCI) under existing IFRS.

2. At this meeting, staff from the ASBJ will present the attached summary of their findings.
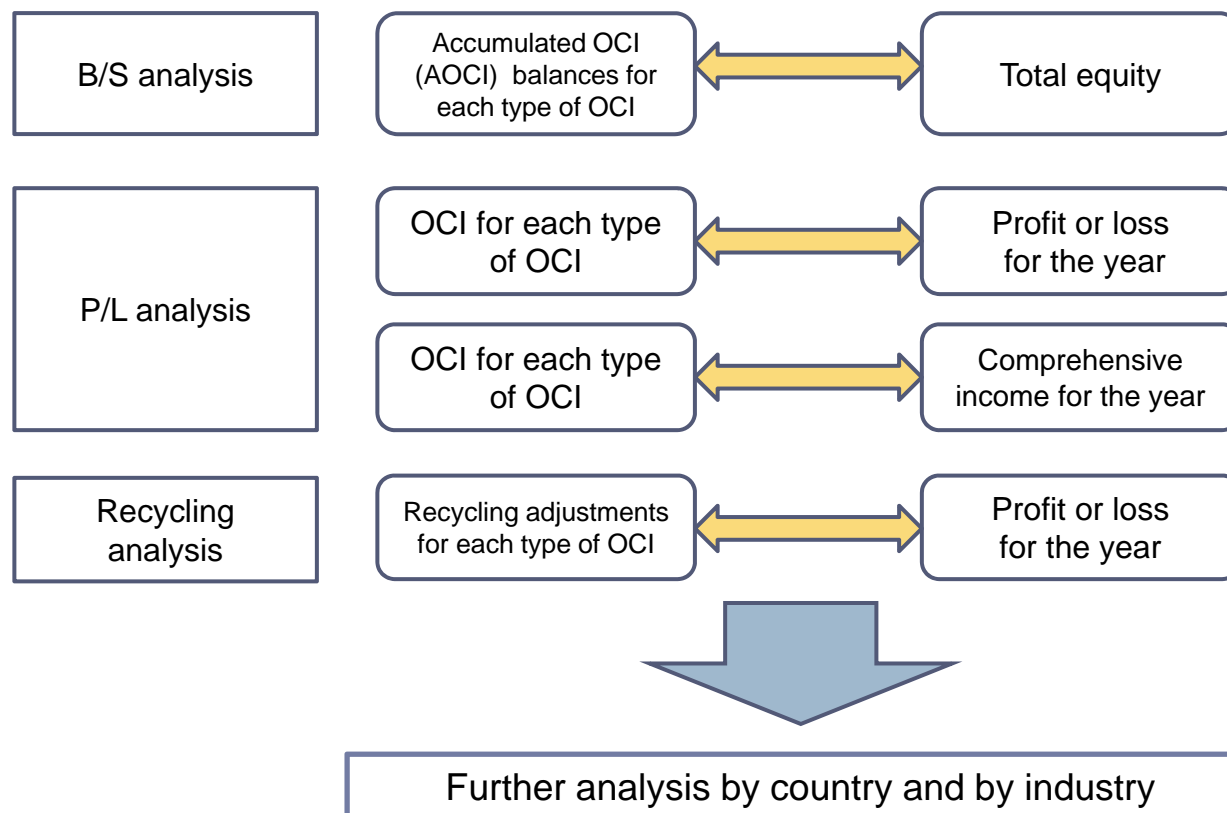
Research on the use of OCI
- Executive summary –
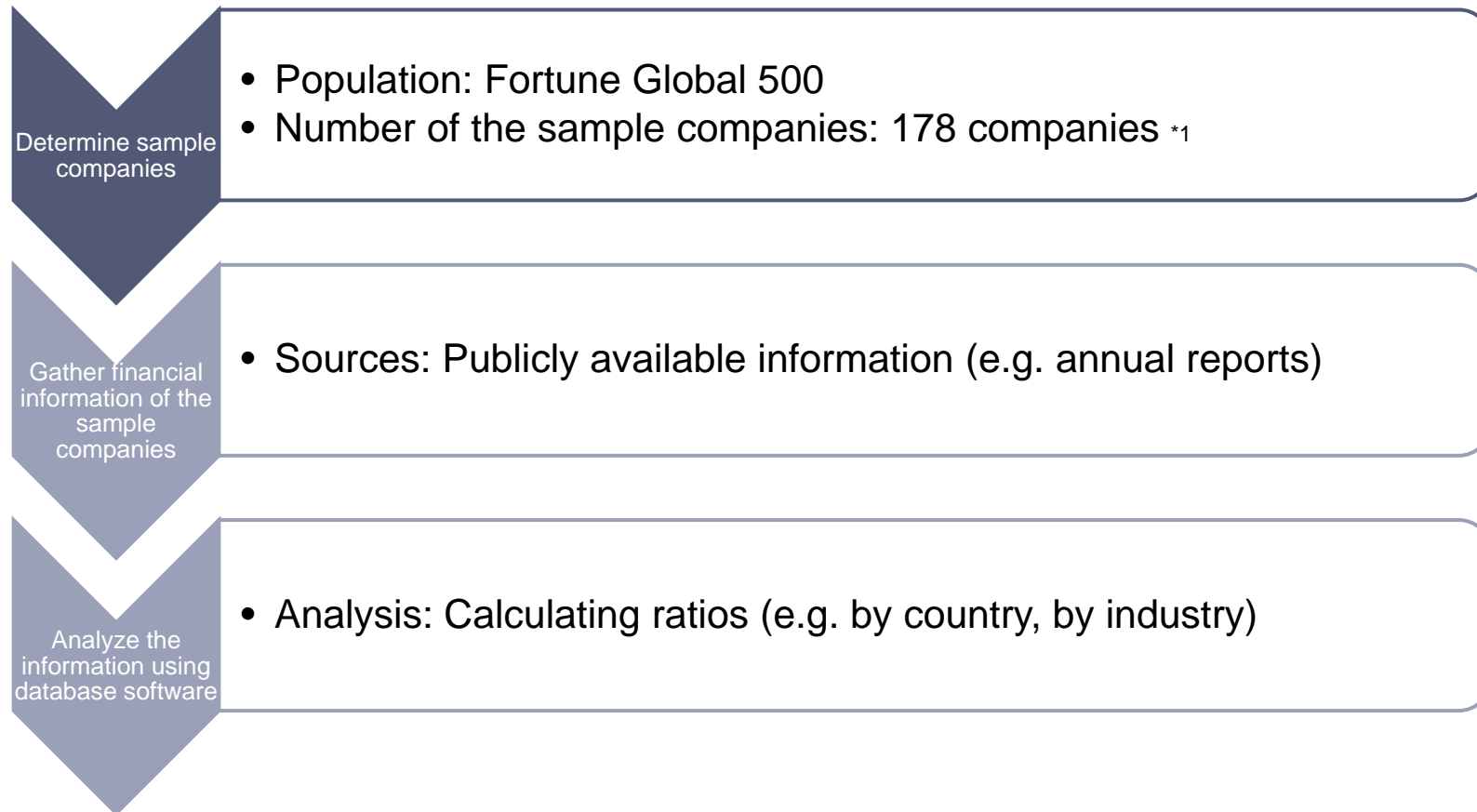

February 2013

The Accounting Standards Board of Japan

Objectives

To understand the extent to which OCI has been used internationally under IFRS by investigating the proportions among the following items:

B/S analysis	Accumulated OCI (AOCI) balances for each type of OCI	⟷	Total equity

P/L analysis	OCI for each type of OCI	⟷	Profit or loss for the year
	OCI for each type of OCI	⟷	Comprehensive income for the year

Recycling analysis	Recycling adjustments for each type of OCI	⟷	Profit or loss for the year

⬇

Further analysis by country and by industry

Procedures

Determine sample companies
- Population: Fortune Global 500
- Number of the sample companies: 178 companies *1

Gather financial information of the sample companies
- Sources: Publicly available information (e.g. annual reports)

Analyze the information using database software
- Analysis: Calculating ratios (e.g. by country, by industry)

(Note)
*1 In the selections of sample companies, we excluded several companies although they prepared financial statements under IFRS, primarily because extremely low figures of total equity/profit or loss for the year may result in extraordinary ratios; thus would obscure the overall statistics.

Formula to calculate the ratios

(Example) Ratio of OCI to profit or loss for the year

Name of the company	Profit or loss for the year	OCI	Ratio
Company A	1,000	50	5%
Company B	1,200	(12)	1%
Company C	(500)	50	10%
Company D *1	800	0	0%

(Step 1)
Calculate the ratio relating to each company using the following formula:

[Absolute figure of OCI] divided by [Absolute figure of profit or loss for the year]

Average ratio	4.0%
Standard deviation	3.9%

(Step 2)
Average the ratios relating to each company.
In addition, calculate standard deviation from average ratios of a company.

(Note)
*1 In the calculation of the ratios in this executive summary, we included the companies that recognises zero OCI.

B/S analysis: Ratios of AOCI to total equity
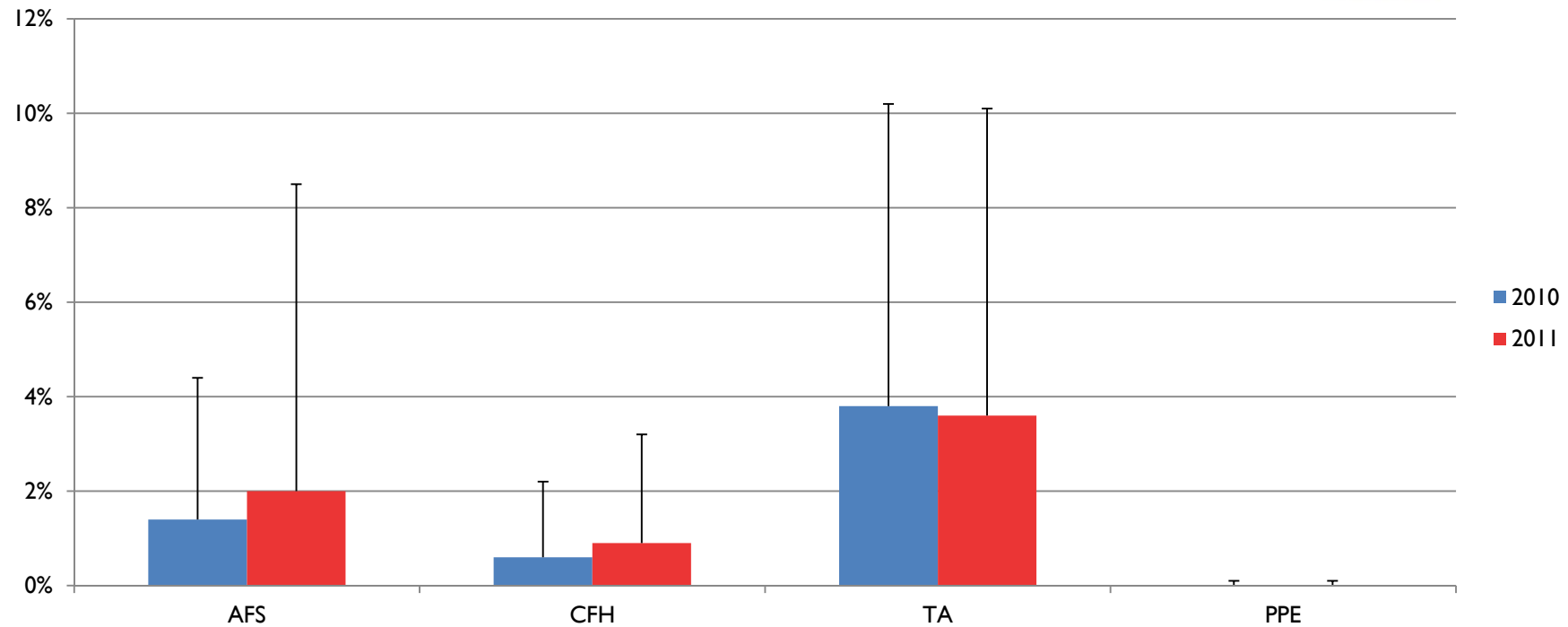
[Key Findings]
- The ratios of AOCI balances to translation adjustments (**TA**) were the highest, and the ratios of AOCI balances to available-for-sale financial assets (**AFS**) was the second highest.
- The ratios of AOCI balances to cash flow hedges (**CFH**) were lower.
- The ratios of AOCI balances to revaluations of property, plant and equipment (**PPE**) were found to be immaterial.

(Note)
Bar charts represent average ratios of AOCI balances to their respective sources and thin lines represent standard deviation.

B/S analysis: Key factors that affect AOCI balances

Results of our analysis: AOCI balances were affected by recycling and the following factors:

	Reference to detailed data	Accounting policy choice	Time horizon of OCI items	Company's positions of respective OCI items	Macro economic factors
AFS financial assets	Page 15-17	N/A	Longer term	Volume of AFS financial assets **(Insurance)**	Interest rates **(Italy)** Stock prices
Cash flow hedges	Page18-20	N/A	Shorter term	Volume of cash flow hedge transactions	Interest rates Exchange rates Commodity prices
Translation adjustments	Page 21-23	N/A	Longer term	Volume of investments in foreign subsidiaries/affiliates **(Most of sample companies)**	Exchange rates **(Swiss Franc, Japanese Yen)**
Revaluations of PPEs	N/A	Optional **(Seven companies)**	Longer term	Volume of the PPEs under the revaluation models	Market prices of PPEs

(Note)
Descriptions in brackets represent what we found in our analysis while all other descriptions represent general descriptions of relevant factors.

# P/L analysis: Ratios of OCI to profit or loss for the year
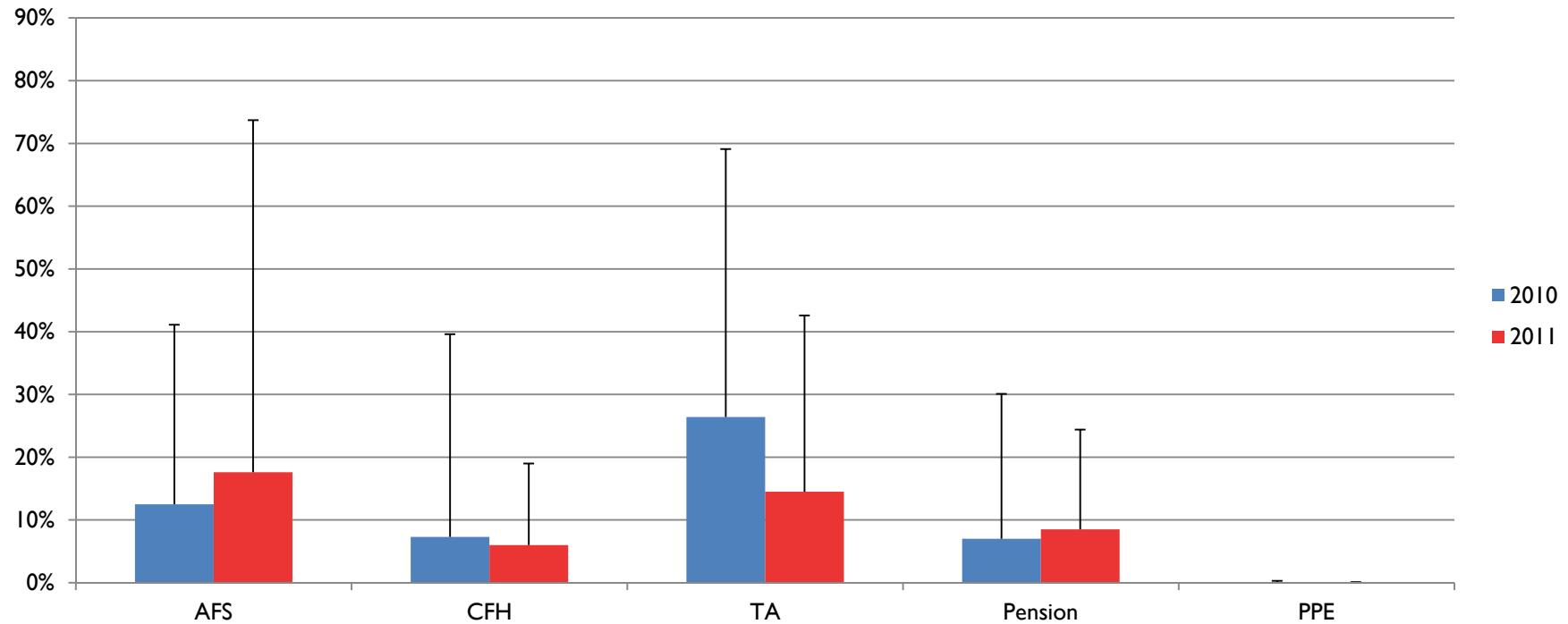
[Key Findings]
- The ratios of OCI figures to translation adjustments (**TA**) were the highest, and the ratios of OCI figures to available-for-sale financial assets (**AFS**) was the second highest.
- The ratios of OCI figures to cash flow hedges (**CFH**) and pension liabilities (**Pension**) were lower.
- The ratios of OCI figures to revaluations of property, plant and equipment (**PPE**) was found to be immaterial.

(Note)
Bar charts represent average ratios of OCI figures to their respective sources and thin lines represent standard deviation.

P/L analysis: Ratios of OCI to comprehensive income for the year
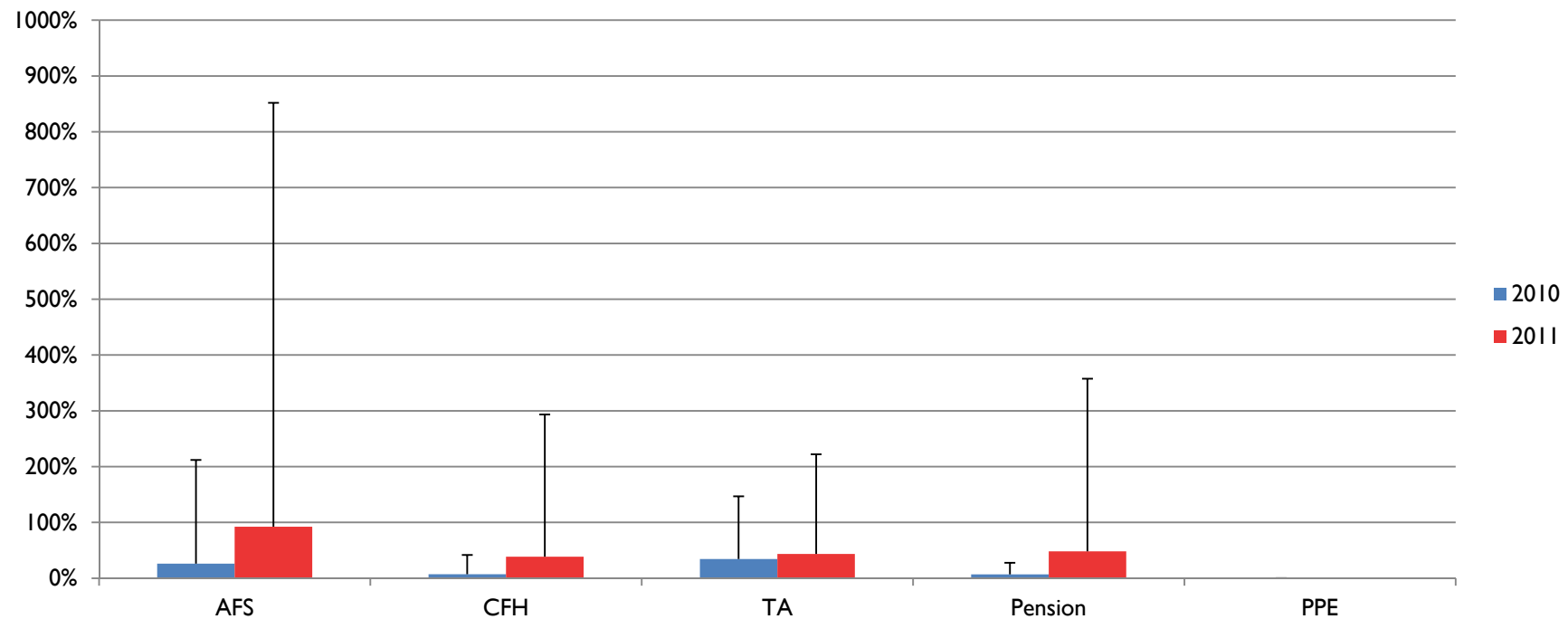
[Key Findings]
● OCI figures resulting from business operations can be significant. Once these significant amounts are added or subtracted from the profit or loss figure, the resulting comprehensive income balance can vary considerably from the original profit or loss figure. As a result, there was no discernible pattern or consistency in the ratios of OCI to comprehensive income.

(Note)
Bar charts represent average ratios of OCI figures to their respective sources and thin lines represent standard deviation.

P/L analysis: Key factors that affect OCI figures

Results of our analysis: OCI figures were affected by recycling and the following factors:

	Reference to detailed data	Accounting policy choice	Company's positions of respective OCI items	Macro economic factors
AFS financial assets	Page 24-26	N/A	Volume of AFS financial assets **(Banking, Insurance)**	Interest rates **(Italy, Germany)** Stock prices
Cash flow hedges	Page 27-29	N/A	Volume of cash flow hedge transactions	Interest rates Exchange rates Commodity prices
Translation adjustments	Page 30-32	N/A	Volume of investments in foreign subsidiaries/affiliates **(Most of sample companies)**	Exchange rates **(Euro, Swiss France, Japanese Yen)**
Pension liabilities	Page 33-35	Optional **(Approximately one hundred companies)**	Pension scheme - DBO, Plan assets **(UK)**	Interest rates **(Discount rates)** Stock prices
Revaluations of PPEs	N/A	Optional **(Five companies)**	Volume of the PPEs under the revaluation models	Market prices of PPEs

(Note)
Descriptions in brackets represent what we found in our analysis while all other descriptions represent general descriptions of relevant factors.

ASBJ

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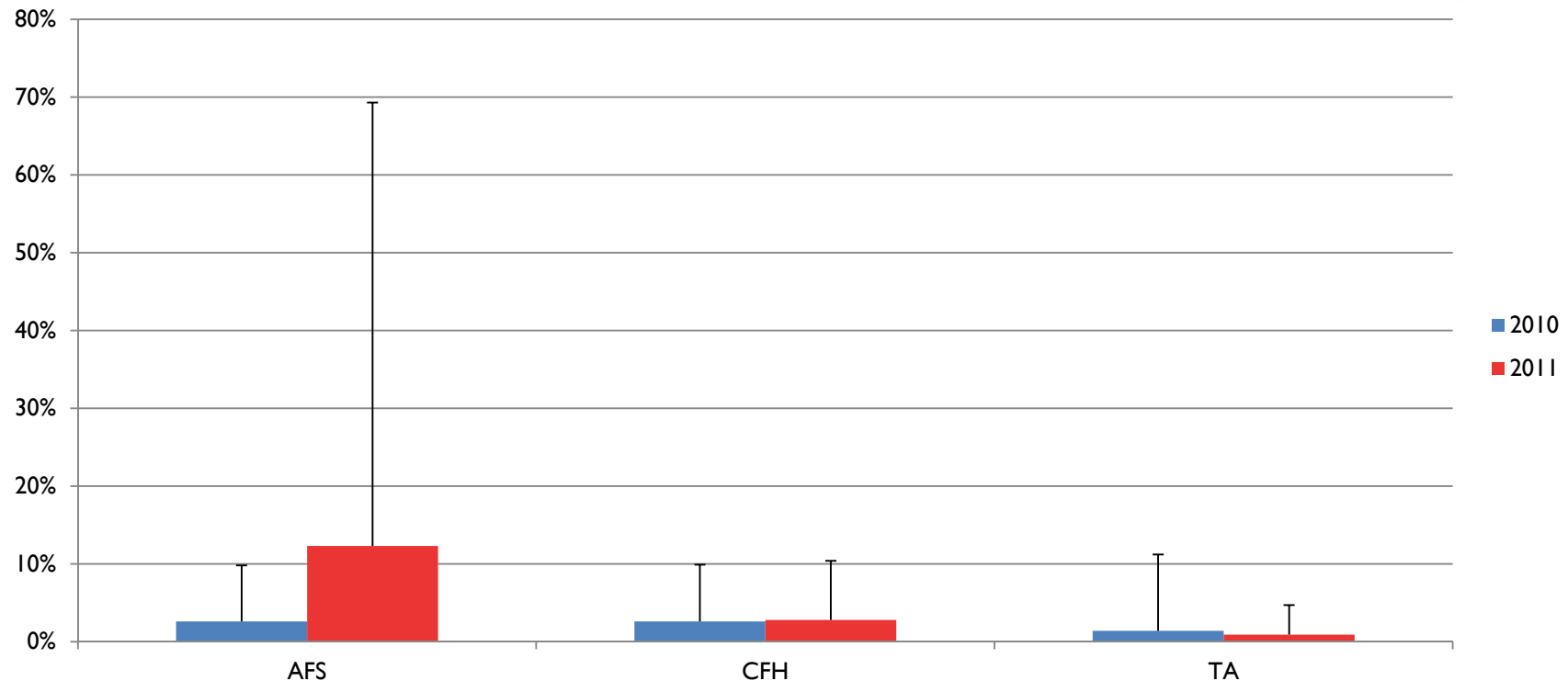
[Key Findings]
● In 2011, the ratio relating to available-for-sale financial assets (**AFS**) was high mainly because several European banks and insurance companies recognised impairment losses in connection with Greek sovereign bonds.
● The ratios relating to cash flow hedges (**CFH**) and translation adjustments (**TA**) were lower.

(Note)
Bar charts represent average ratios of recycling figures to their respective sources and thin lines represent standard deviation.

Recycling analysis: Key factors that affect recycling figures

Results of our analysis: Recycling figures were affected by the following factors:

	Reference to detailed data	Company's positions of respective OCI items	Triggering events
AFS financial assets	Page 36-38	Volume of AFS financial assets **(Banking, Insurance)**	Disposal of AFS financial assets Indicator of impairment **(Sovereign debt crisis)**
Cash flow hedges	Page 39-41	Volume of cash flow hedge transactions	Settlement of hedging instruments
Translation adjustments	Page 42-44	Volume of investments in foreign subsidiaries/affiliates	Disposal of the investments in foreign subsidiaries/affiliates

(Note)
Descriptions in brackets represent what we found in our analysis while all other descriptions represent general descriptions of relevant factors.

● Data labeled "2010" includes the information for companies whose fiscal year ended between July 1, 2010 and June 30, 2011. Data labeled "2011" includes the information for companies whose fiscal year ended between July 1, 2011 and June 30, 2012.

● In this report, ratios are calculated on a net of tax basis. For companies that disclosed recycling adjustments on a before tax basis, we calculated amounts on a net of tax basis using the information in the notes or statutory tax rates.

● Some companies disclosed OCI figures, but did not disclose AOCI balances. In such cases, we included the companies in our analysis of OCI figures, but did not include them in our analysis of AOCI balances.

● Several companies disclosed AOCI balances for available-for-sale and for cash flow hedges in combination under the titles such as 'fair value reserve'. In this case, we categorized the total amount as either available-for-sale or cash flow hedges depending on volumes of the transactions.

● Net investment hedges were included in our analysis of OCI figures relating to translation adjustments.

Appendix A

Detailed data

Scope of the analysis

By Country

Country	Number of the companies
Australia	9
Belgium	2
Brazil	7
Canada	8
France	30
Germany	29
Hong Kong	5
Italy	9
Japan	2
Korea	13
Netherlands	9
Spain	8
Sweden	4
Switzerland	9
UK	27
Other *1	7
Total	178

By industry

Industry	Number of the companies
Aerospace & Defense	3
Airlines	2
Automotive	14
Banking & Capital Markets	29
Consumer Products	14
Diversified Industrial Products	3
Insurance	14
Life sciences	8
Media & Entertainment	2
Mining & Metals	13
Oil & Gas	18
Power & Utilities	16
Real Estate	6
Retail & Wholesale	15
Technology	5
Telecommunications	8
Other sectors *2	8
Total	178

(Note)
*1 Including Austria, Denmark, Finland, Ireland, Luxemburg, Norway and Singapore.
*2 Including Chemical, Public Sector and Private Equity.

B/S analysis: Available-for-sale financial assets

Distribution chart

Ratios of AOCI to total equity

2010

2011

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

B/S analysis: Available-for-sale financial assets
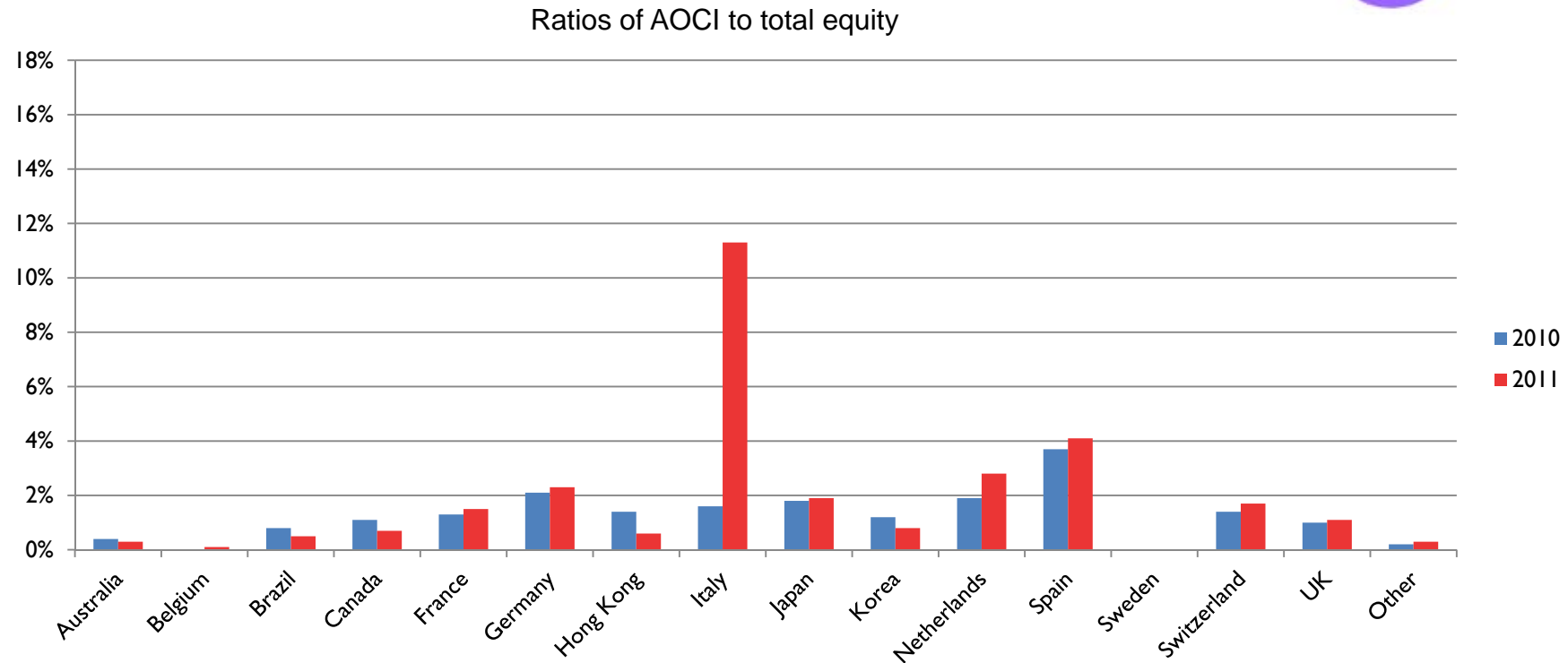
Ratios of AOCI to total equity

Legend: 2010, 2011

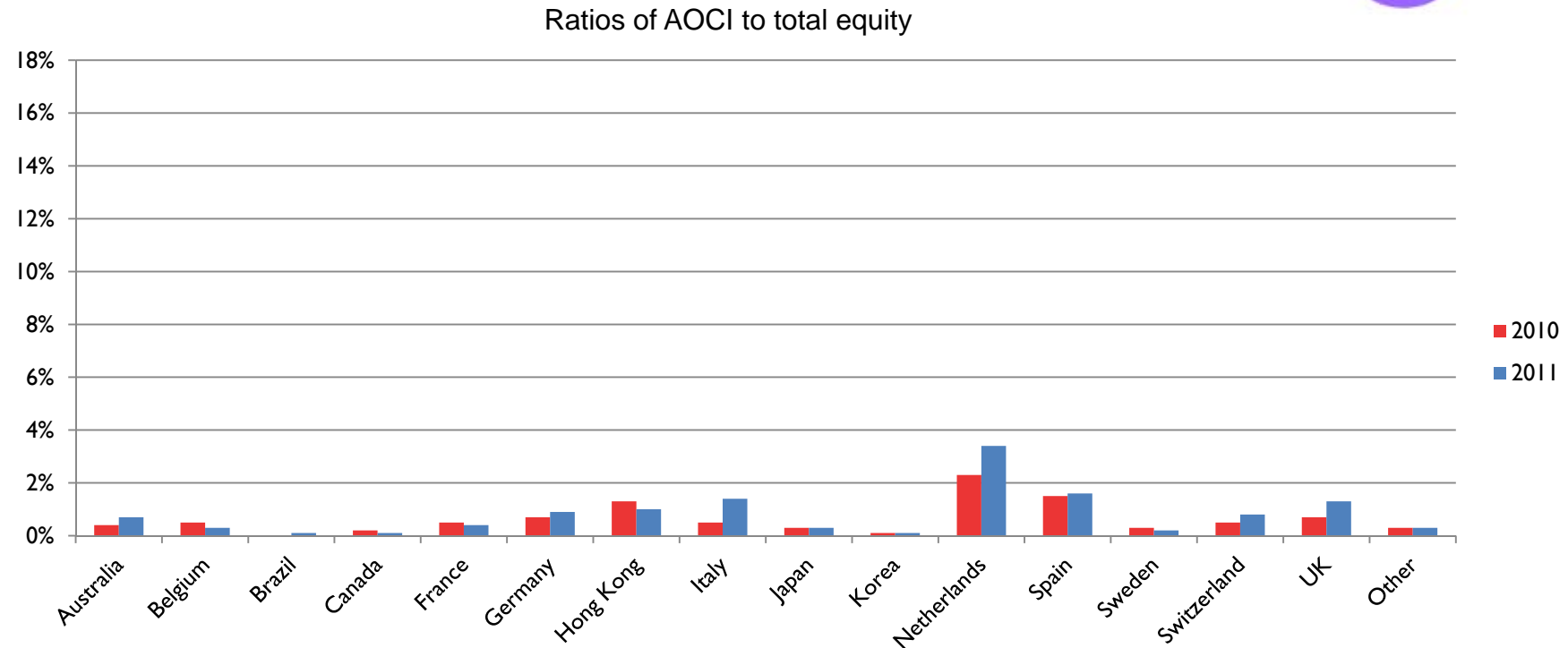X-axis: Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong, Italy, Japan, Korea, Netherlands, Spain, Sweden, Switzerland, UK, Other

[Analysis by country]
● **Italy:** The ratio relating to the Italian companies was very high in 2011 mainly due to a rise in interest rates caused by the downgraded credit ratings of Italian sovereign bonds.
● **Spain:** The high ratios relating to the Spanish companies were primarily due to a company that had large AOCI balances related to an investment in an electricity company.

B/S analysis: Available-for-sale financial assets

Ratios of AOCI to total equity
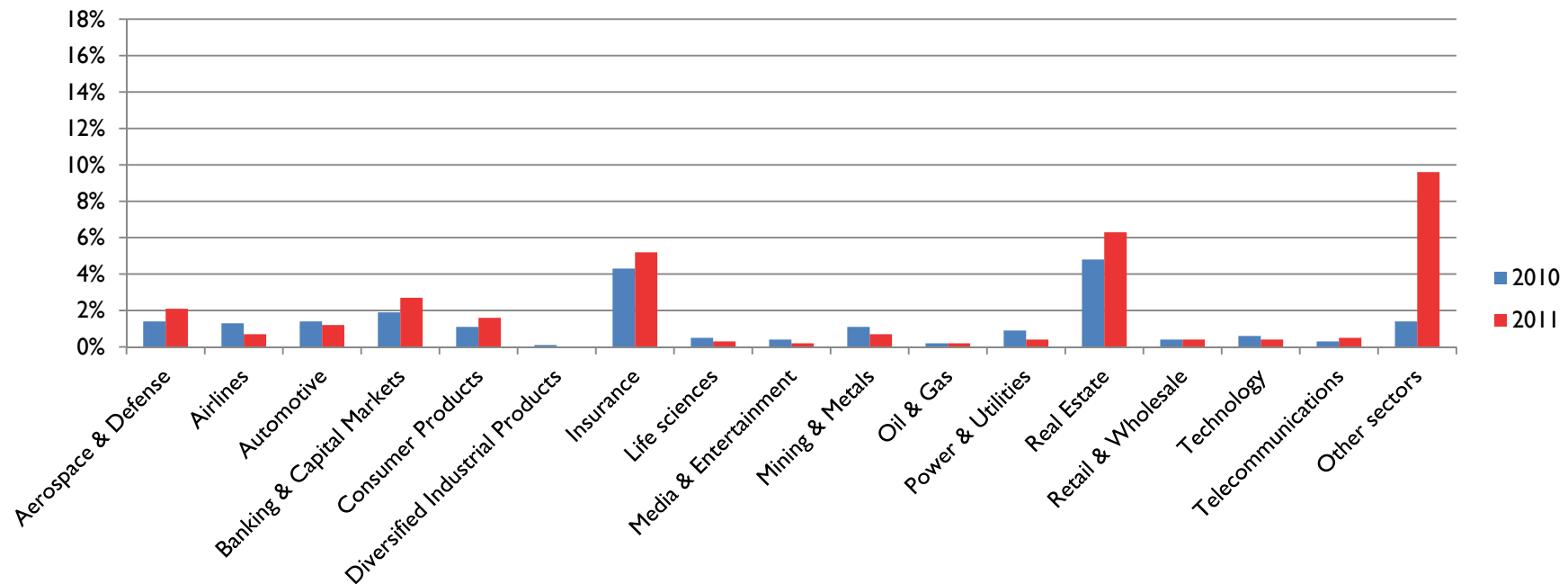
[Analysis by industry]
● **Insurance:** The ratios relating to the insurance companies were high. This could have resulted from having the longer-term securities.
● **Real estate:** The high ratios in the real estate sector were primarily due to a Spanish company that had large AOCI balances related to an investment in an electricity company.
● **Other sectors:** The high ratio in the other sectors in 2011 was mainly due to a postal company included in the group, which had a large AOCI balance relating to the Italian sovereign bonds.

B/S analysis: Cash flow hedges
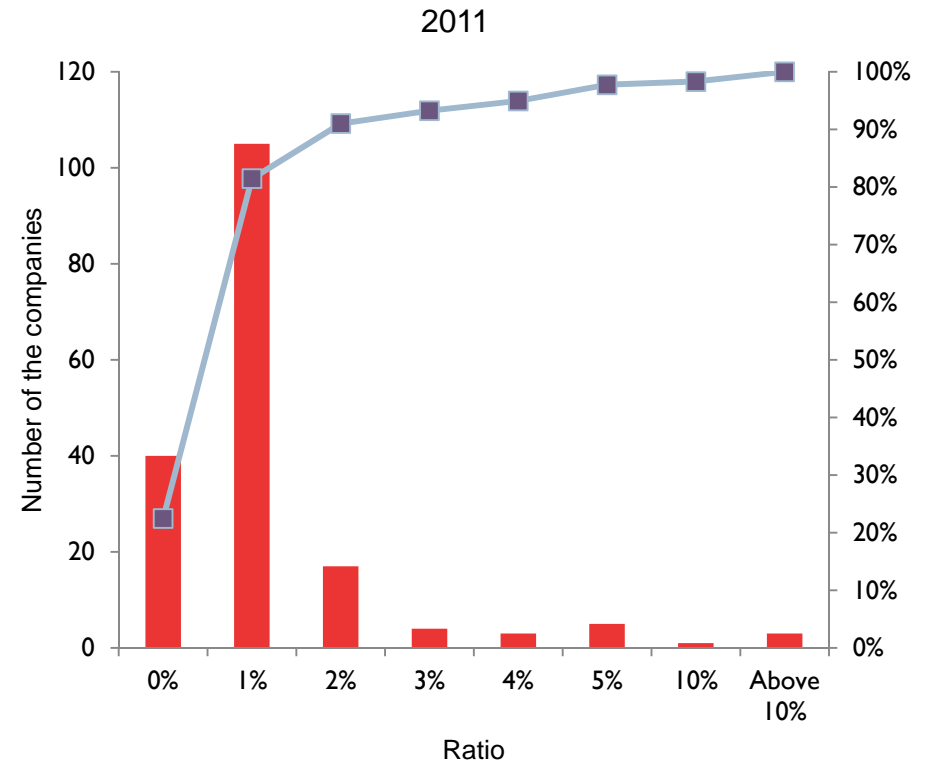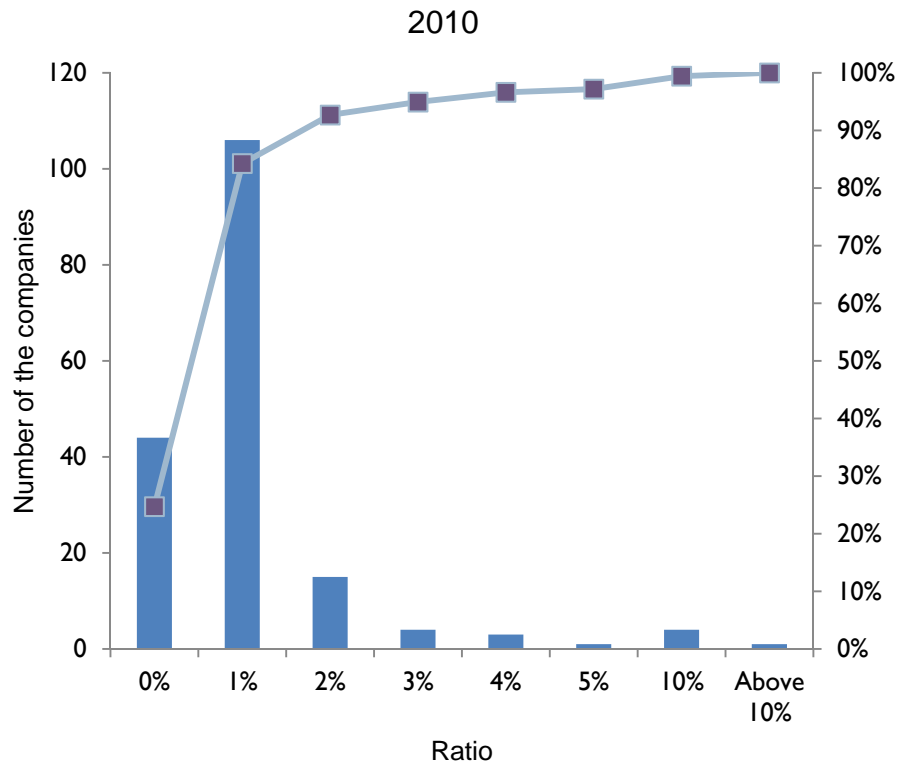
Distribution chart

Ratios of AOCI to total equity

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

B/S analysis: Cash flow hedges

Ratios of AOCI to total equity

Legend: 2010 (red), 2011 (blue)

X-axis categories: Australia, Belgium, Brazil, Canada, France, Germany, Hong Kong, Italy, Japan, Korea, Netherlands, Spain, Sweden, Switzerland, UK, Other

[Analysis by country]

● **The Netherlands:** The high ratios relating to the Dutch companies were mainly because a company in the aerospace & defense sector had large AOCI balances which related mostly to foreign currency derivative contracts on future sales.

B/S analysis: Cash flow hedges

Ratios of AOCI to total equity
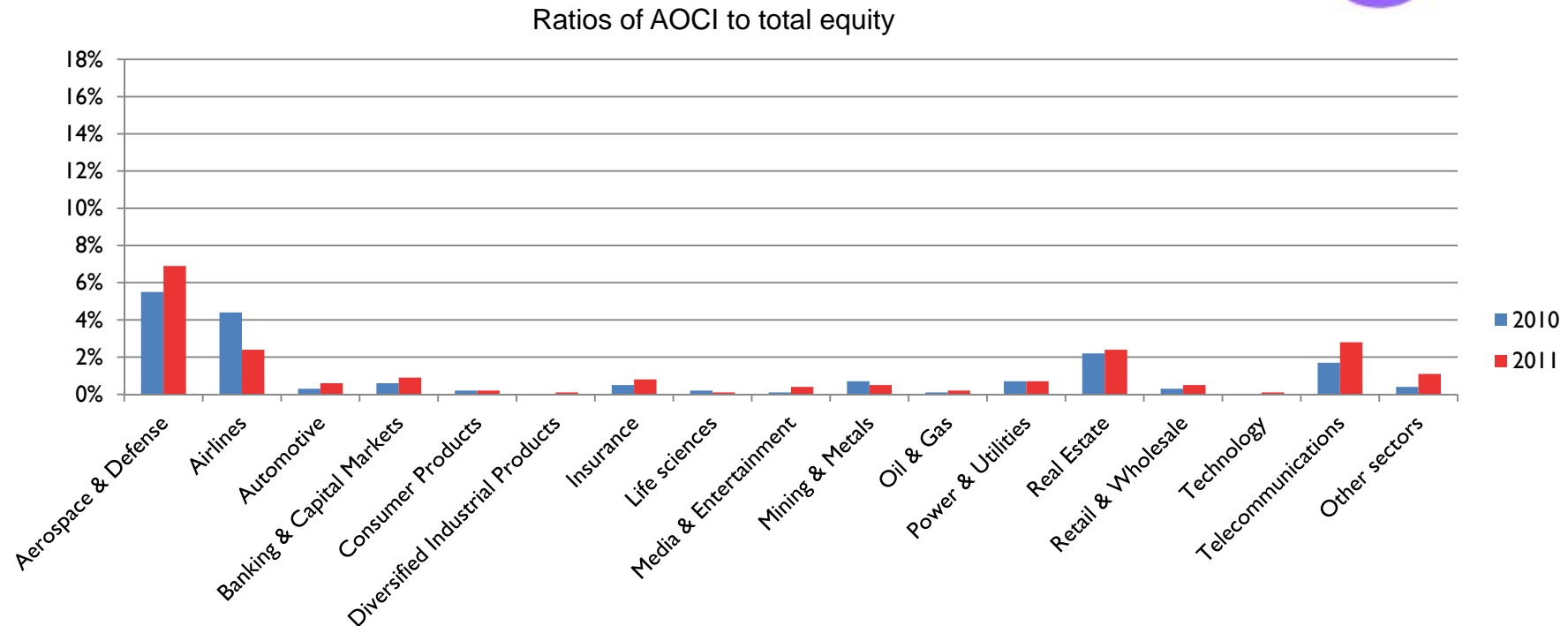
[Analysis by industry]

● **Aerospace & Defense:** The high ratios relating to the aerospace & defense sector were mainly because a Dutch company had large balances mostly relating to foreign currency derivative contract on future sales.

● **Banking & Capital Markets:** Although the companies in the banking & capital markets sector had large AOCI balances as interest rate swaps and cross currency swaps were frequently designated as hedging instruments, the ratios relating to that sector were low. This was because total equity balances were also high in the sector.

Distribution chart

Ratios of AOCI to total equity

2010

2011

Number of the companies
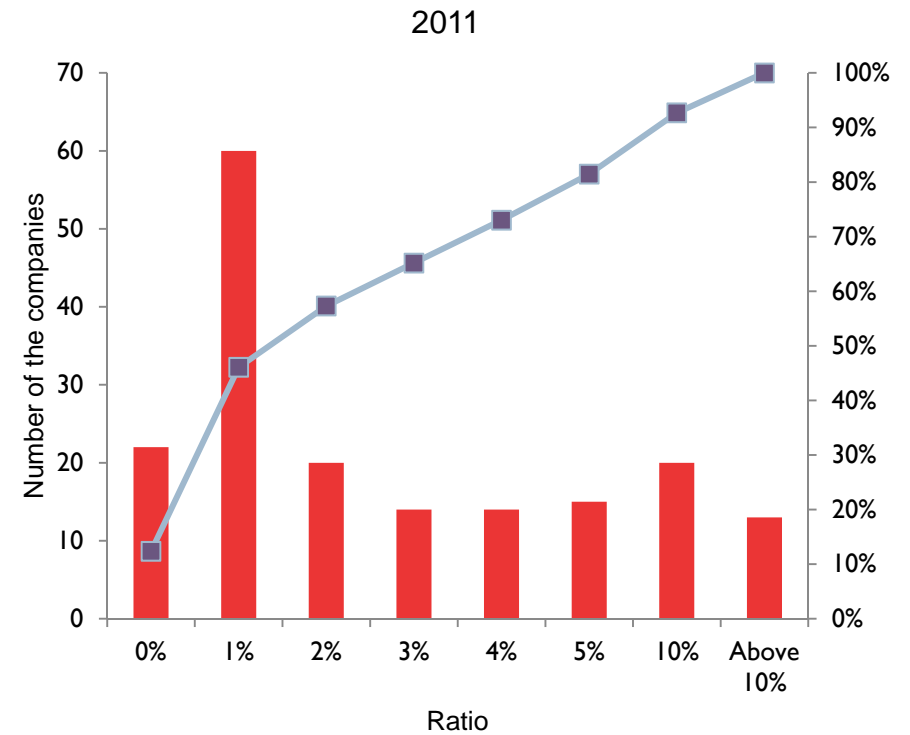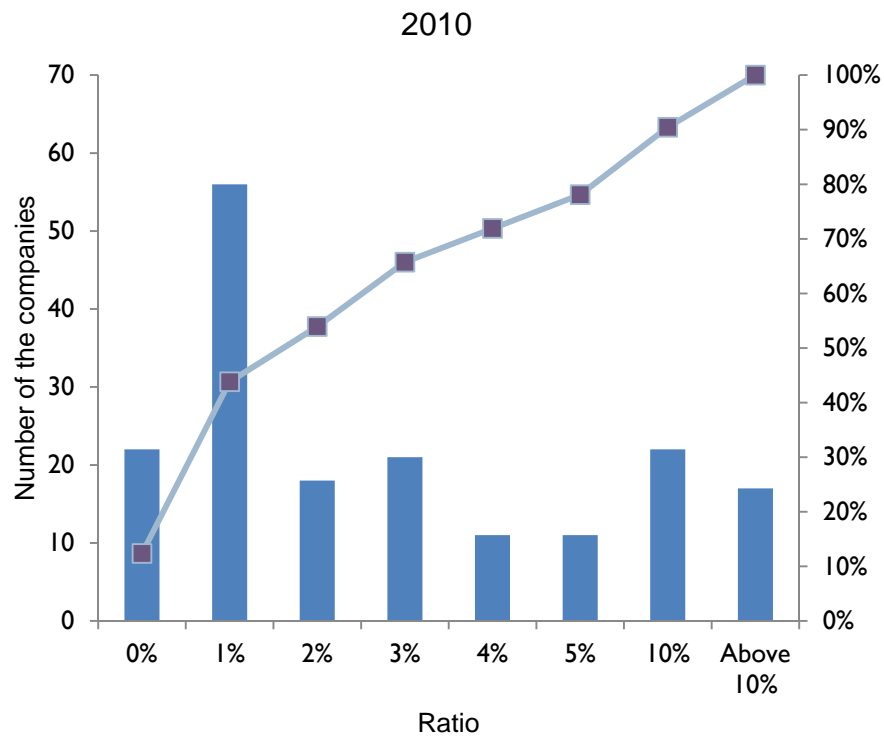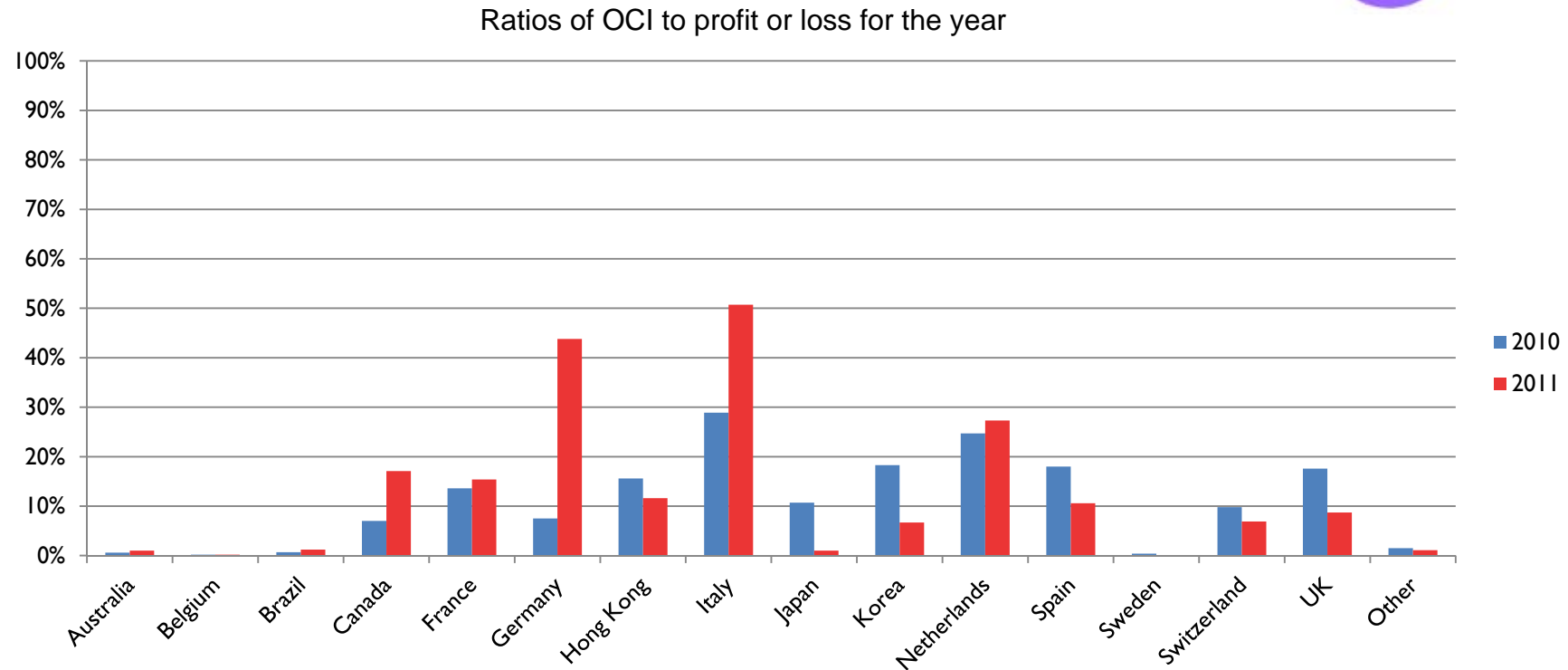
Ratio

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

B/S analysis: Translation adjustments

Ratios of AOCI to total equity
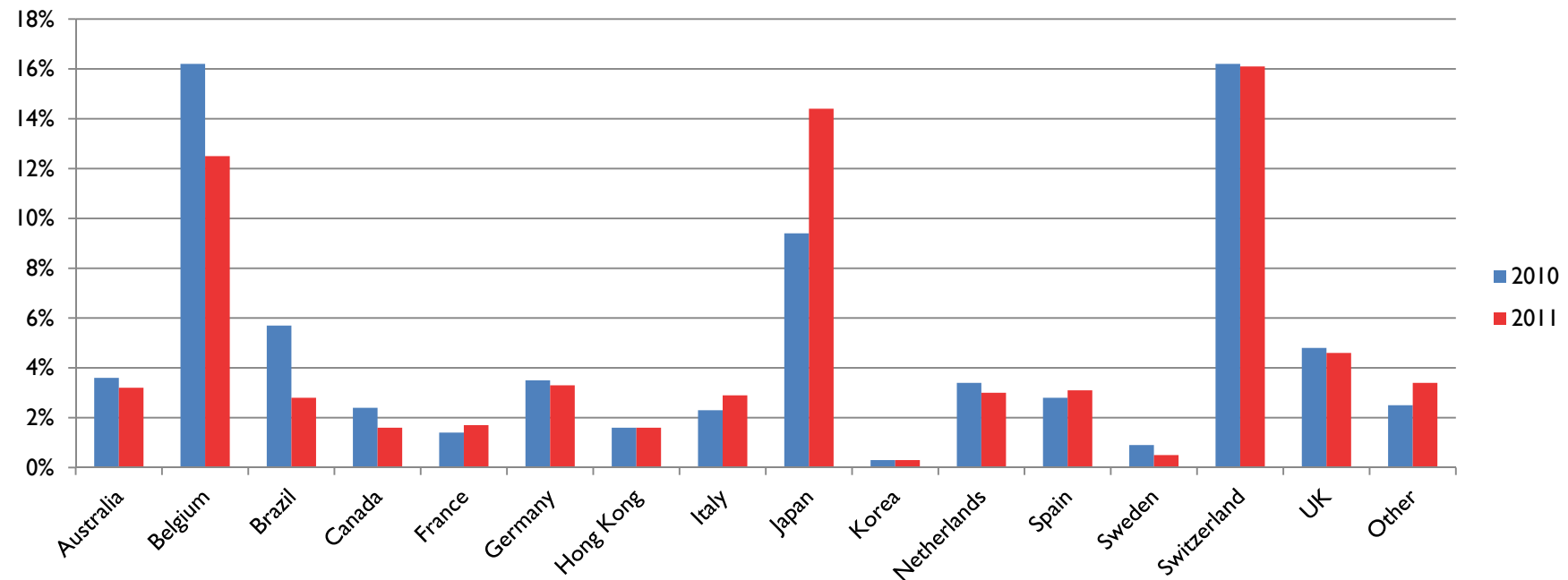
[Analysis by country]
- **Switzerland and Japan:** The ratios relating to the Swiss and Japanese companies were very high mainly due to the appreciation of the Swiss Franc and the Japanese Yen.
- **Belgium:** The high ratios for the Belgian companies were due to a specific company that had investments in the US which caused large AOCI balances, while total equity balances were relatively small.

B/S analysis: Translation adjustments
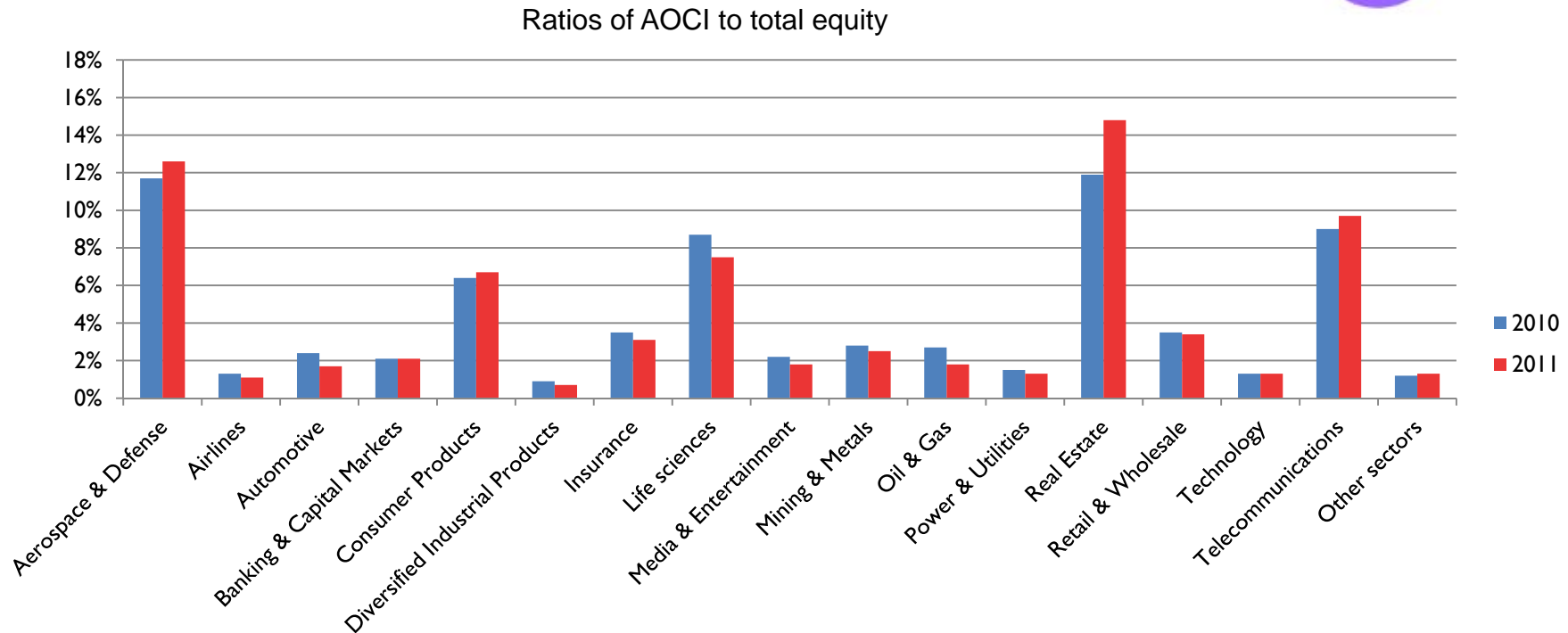
Ratios of AOCI to total equity

[Analysis by industry]
● We have omitted the analysis by industry as the analysis by country is more relevant and provides more meaningful and useful information.

P/L analysis: Available-for-sale financial assets

Distribution chart

Ratios of OCI to profit or loss for the year

2010

2011

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

P/L analysis: Available-for-sale financial assets

Ratios of OCI to profit or loss for the year
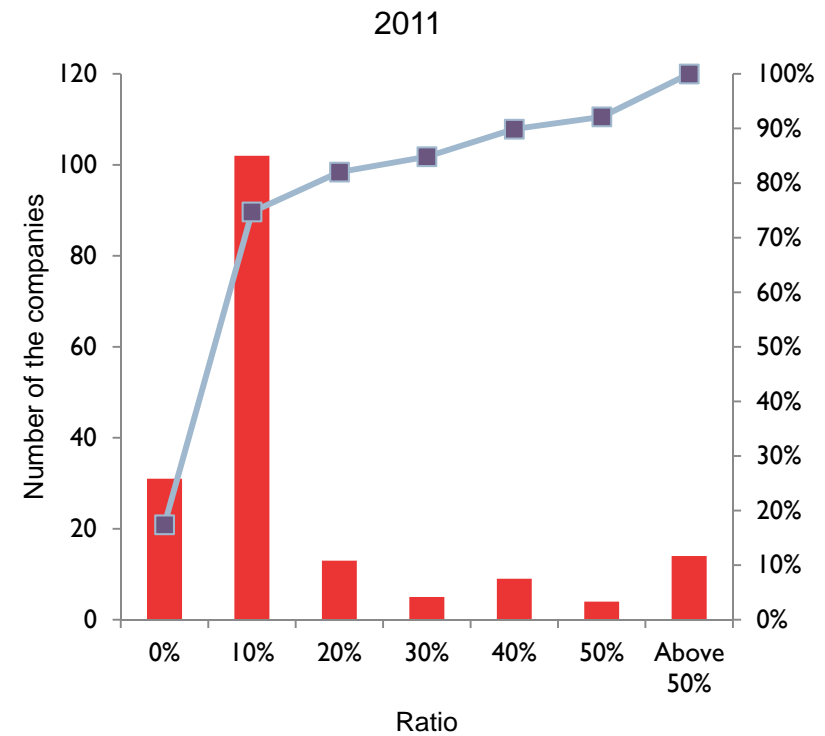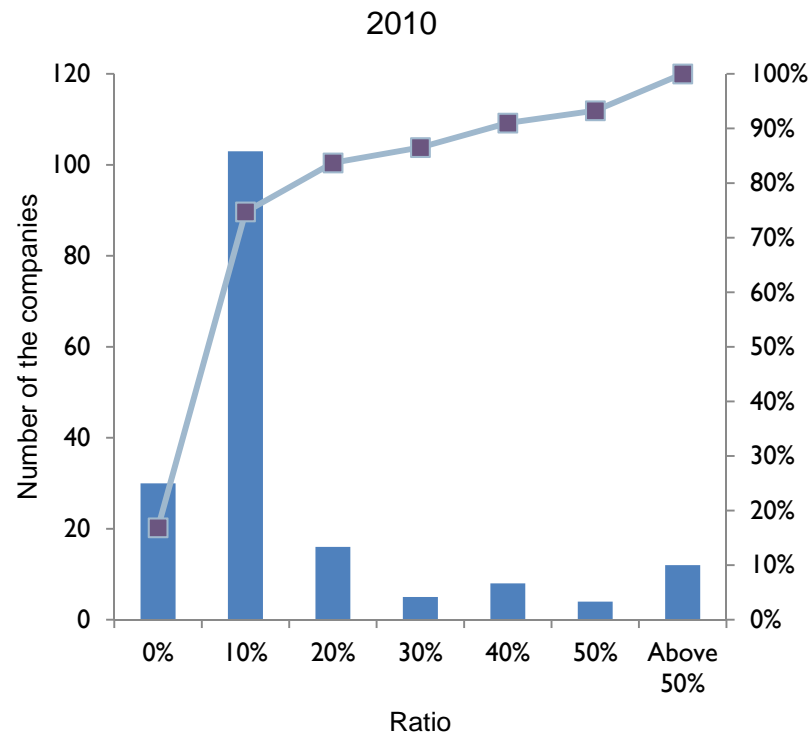
[Analysis by country]
● **Italy:** The ratio relating to the Italian companies was very high in 2011 mainly due to a rise in interest rates caused by downgrade in credit ratings of Italian sovereign bonds.
● **Germany:** In 2011, the ratio relating to the German companies was high. This was partly because several German banks recognised negative OCI figures relating to the sovereign debt crisis.

P/L analysis: Available-for-sale financial assets

Ratios of OCI to profit or loss for the year
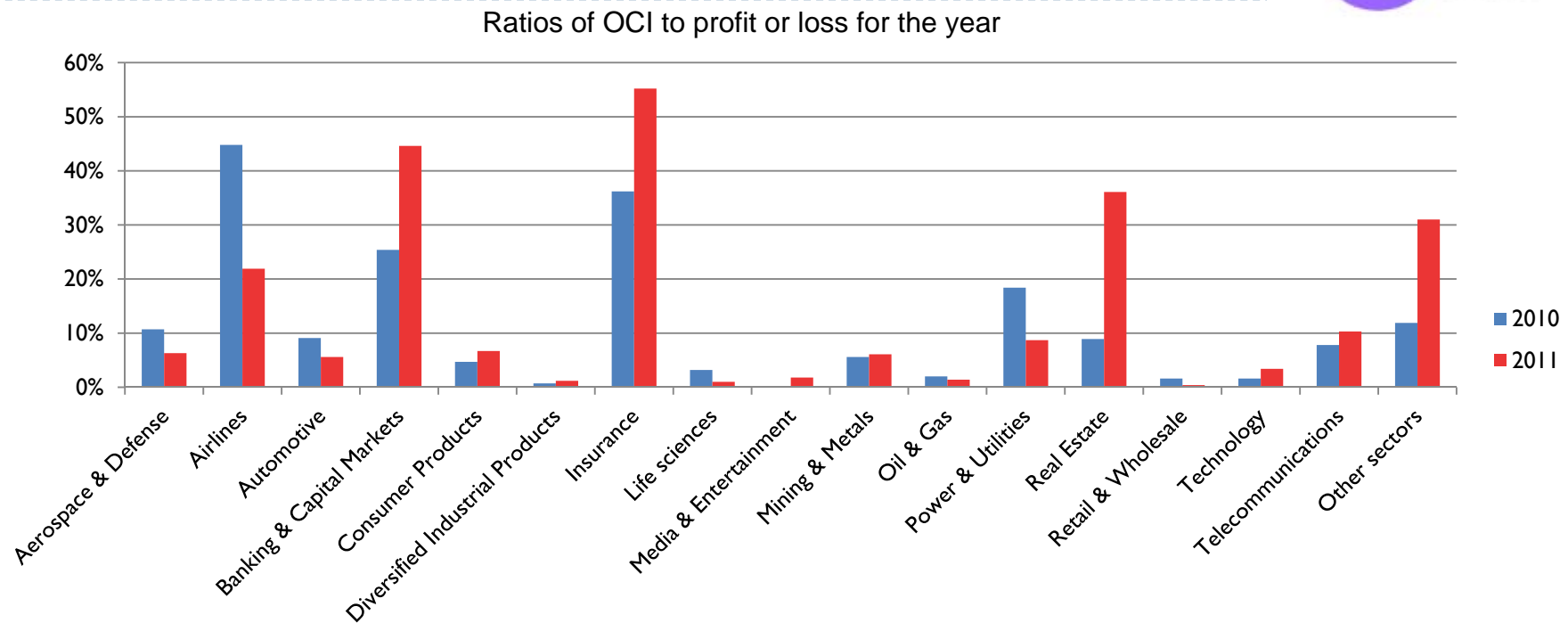
[Analysis by industry]
● **Airlines:** In 2010, the high ratio relating to the airlines sector was mainly due to the level of profit or loss for the year.
● **Banking & Capital Markets and Insurance:** The ratios in the banking & capital markets and insurance sector were significantly affected by the sovereign debt crisis.
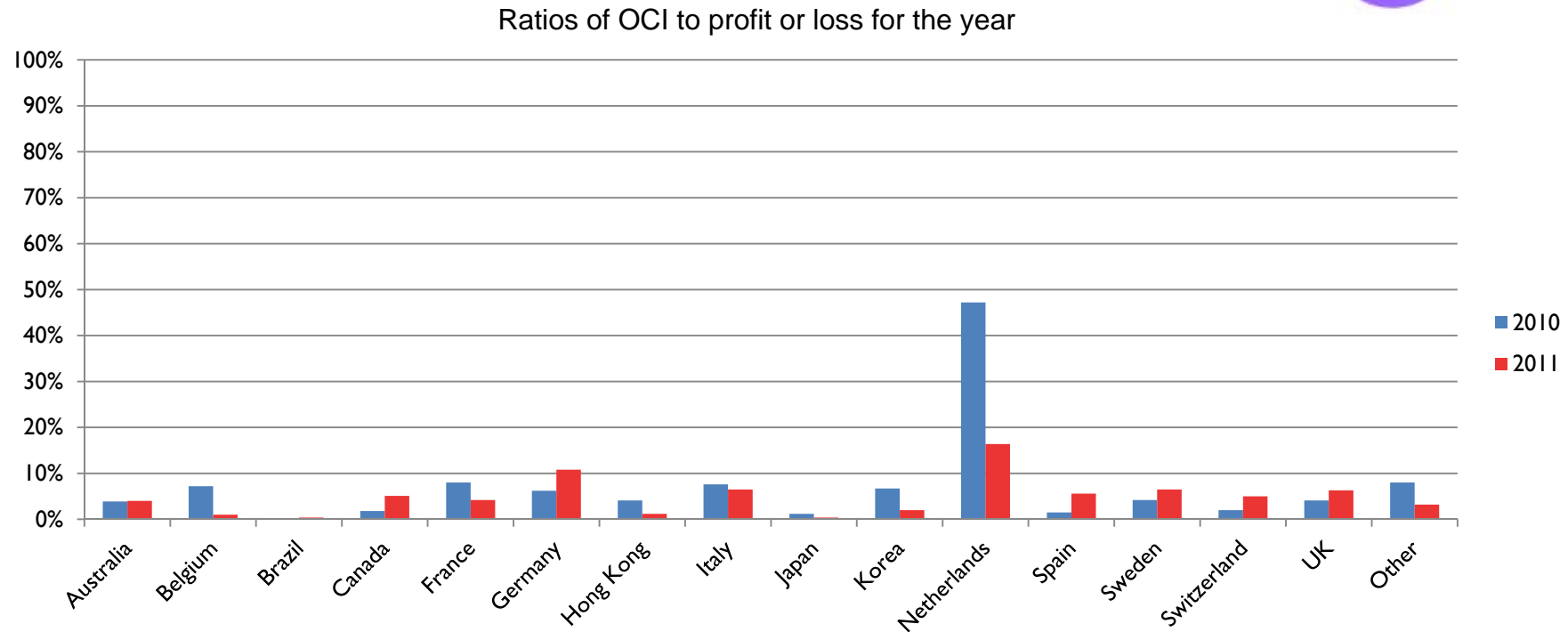
P/L analysis: Cash flow hedges

Distribution chart

Ratios of OCI to profit or loss for the year

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.
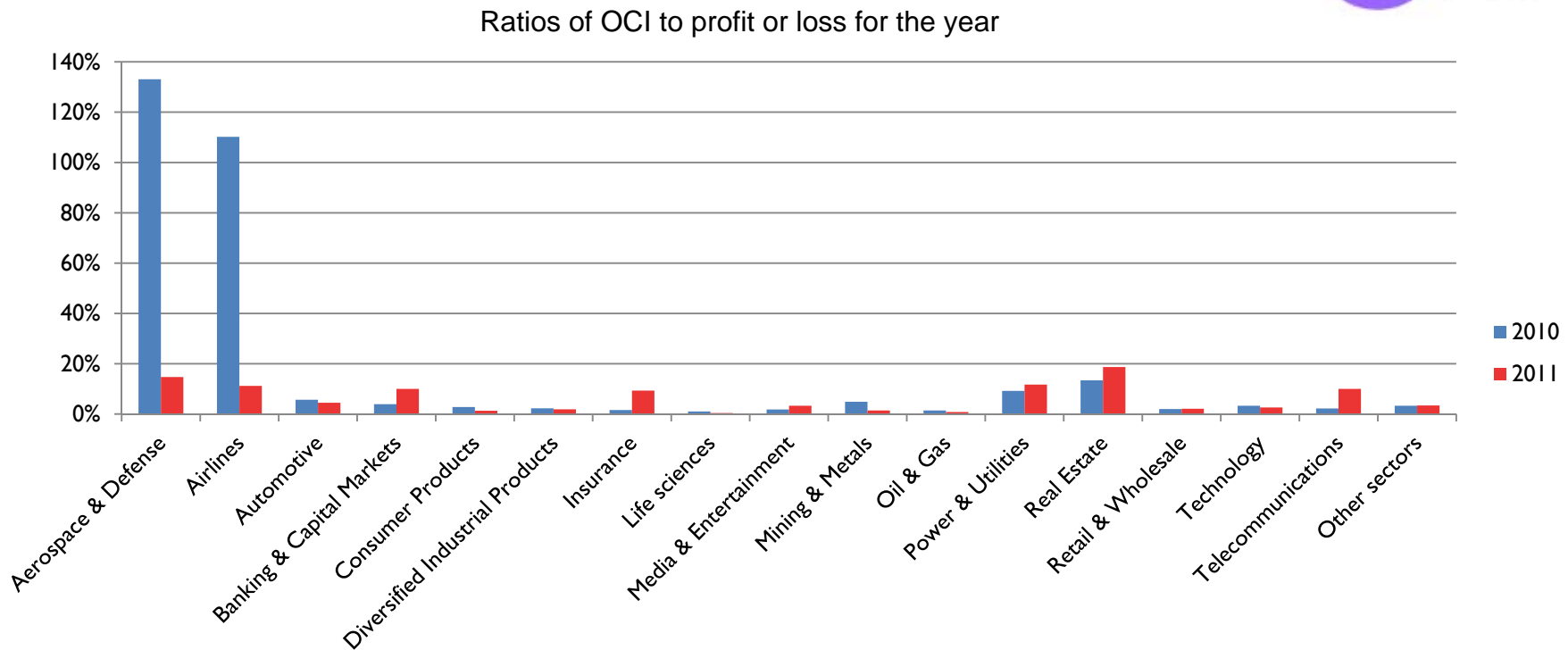
P/L analysis: Cash flow hedges

Ratios of OCI to profit or loss for the year
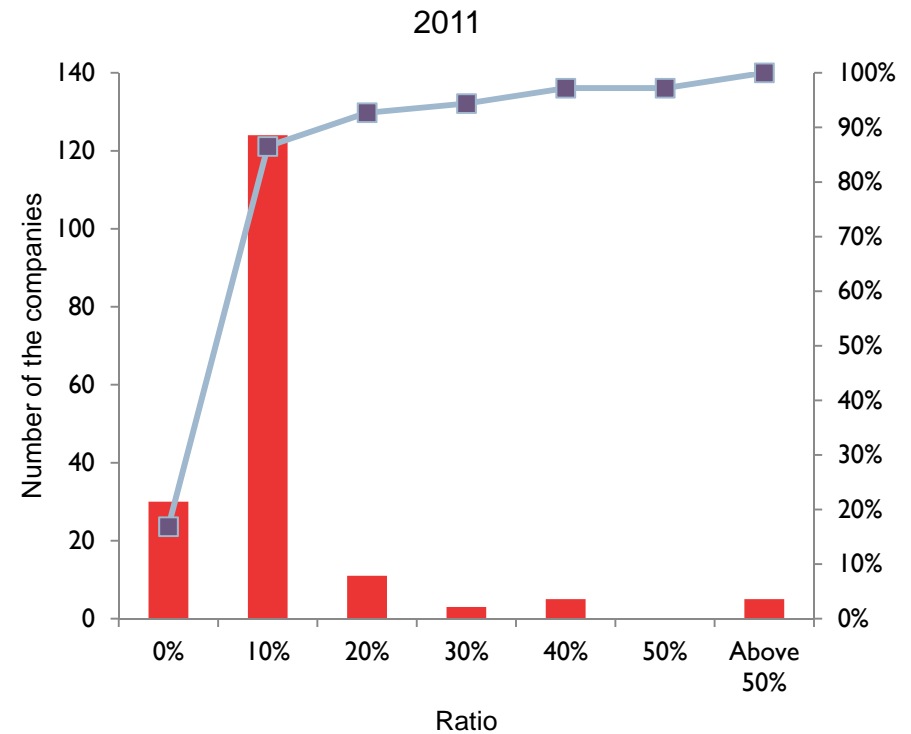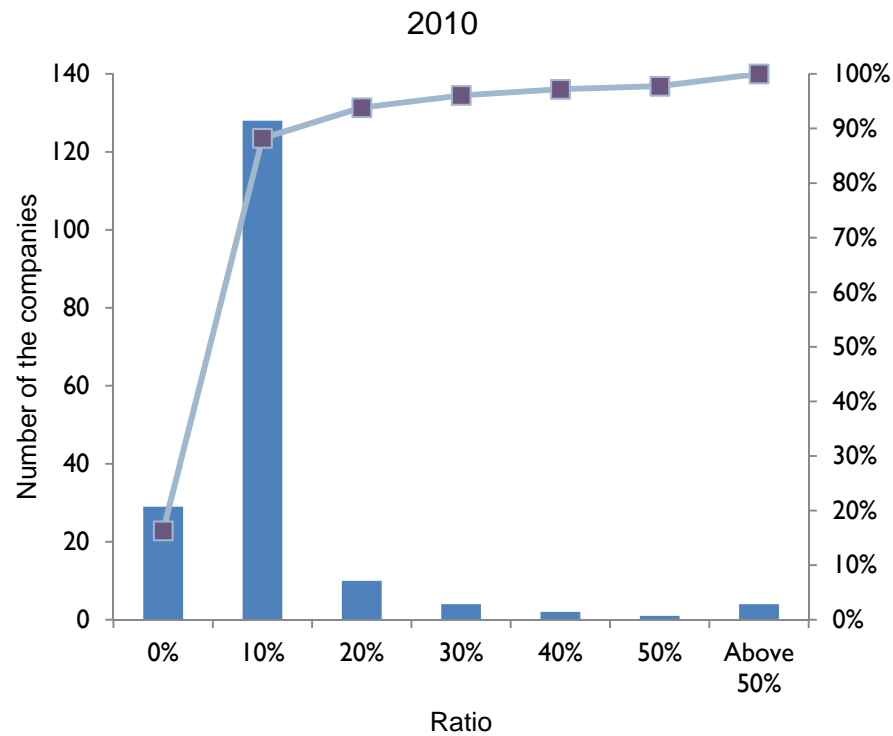
[Analysis by country]
● **The Netherlands:** In 2010, the ratio relating to the Dutch companies was high mainly due to a company in the aerospace & defense sector recognised a significant OCI figure mostly relating to foreign currency derivative contract on future sales when profit for the year was relatively low. In 2011, a Dutch insurance company recognised a large OCI figure mainly in connection with interest rate swaps and cross currency swaps.

P/L analysis: Cash flow hedges

Ratios of OCI to profit or loss for the year

Legend: ■ 2010 ■ 2011

Categories (x-axis): Aerospace & Defense, Airlines, Automotive, Banking & Capital Markets, Consumer Products, Diversified Industrial Products, Insurance, Life sciences, Media & Entertainment, Mining & Metals, Oil & Gas, Power & Utilities, Real Estate, Retail & Wholesale, Technology, Telecommunications, Other sectors

[Analysis by industry]
● **Aerospace & Defense:** In 2010, the high ratio relating to the companies in the aerospace & defense sector was mainly because a Dutch company recognised a significant OCI figure mostly relating to foreign currency derivative contract on future sales when profit for the year was relatively low.
● **Airlines:** In 2010, the high ratio relating to the airlines sector was mainly due to the level of profit or loss for the year.
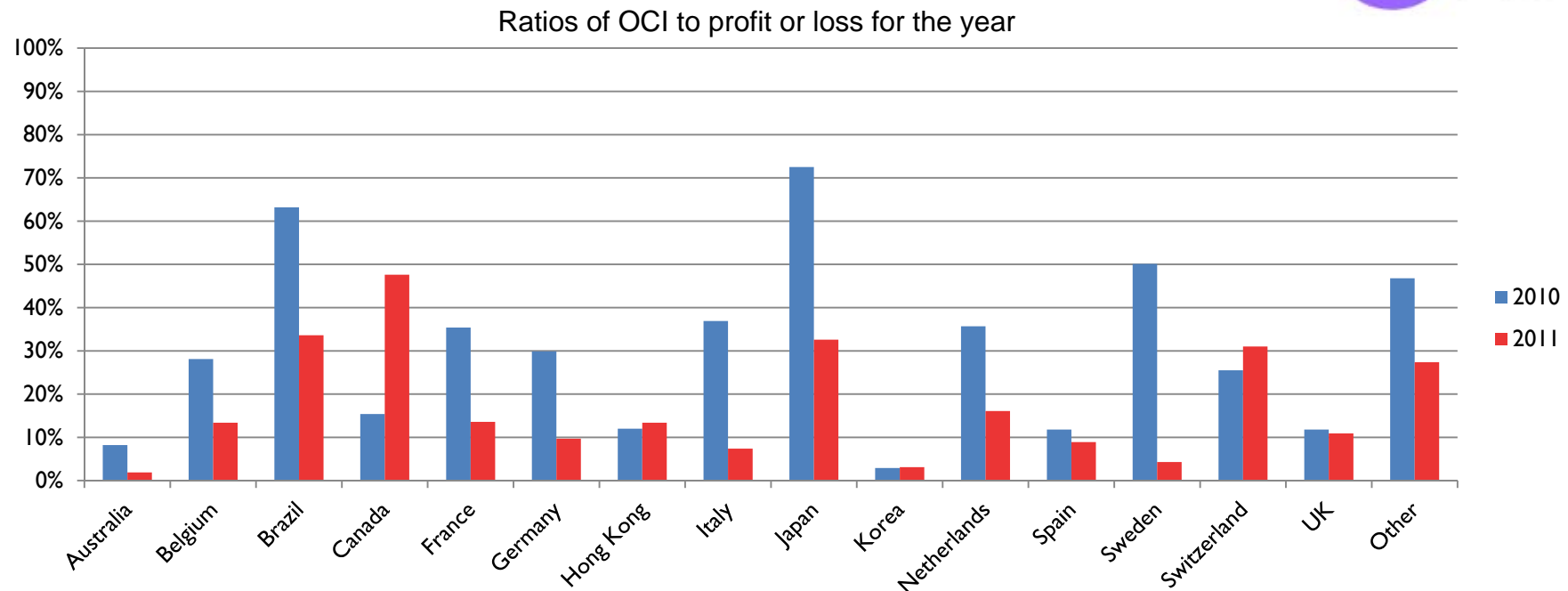
Distribution chart

Ratios relating to all companies
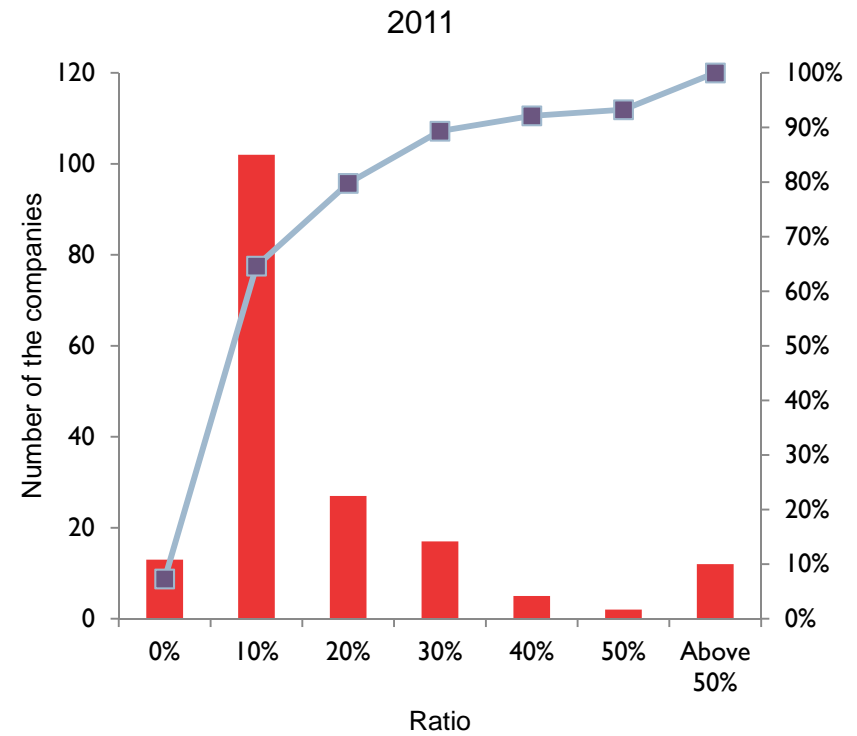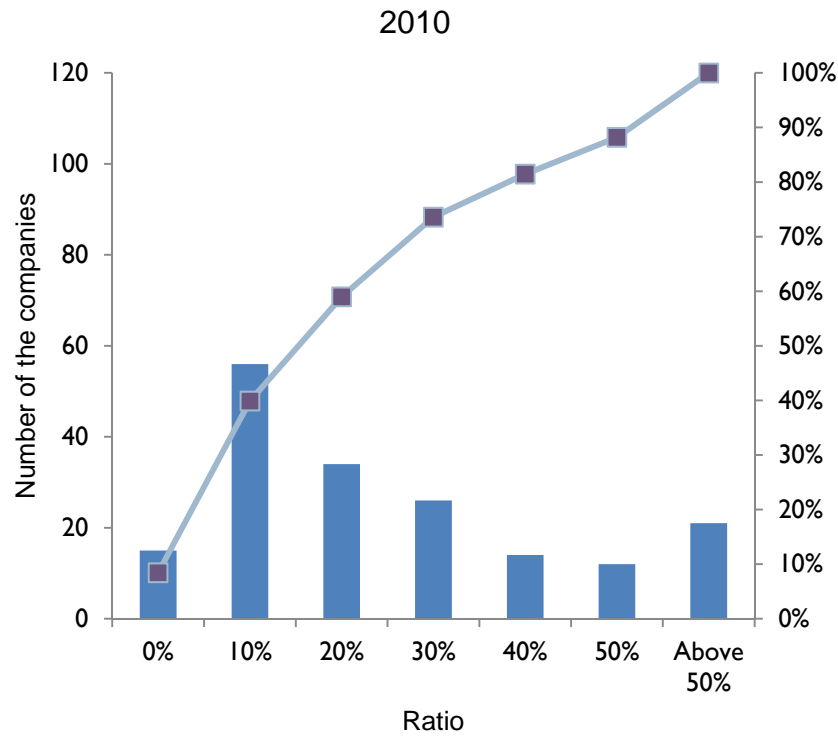
(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

Ratios of OCI to profit or loss for the year

[Analysis by country]
● **Brazil:** The high ratios relating to the Brazilian companies were caused primarily by a specific company that selected US dollar as its reporting currency while the functional currency of the parent company was the Brazilian Real. Thus, significant OCI figures were recognised in connection with the equity of parent company.
● **Switzerland and Japan:** The high ratios relating to the Swiss and Japanese companies were due to the appreciation of the Swiss Franc and the Japanese Yen.
● **Euro zone countries:** In 2010, the companies in the Euro zone recognised large OCI figures due to the weaker Euro.
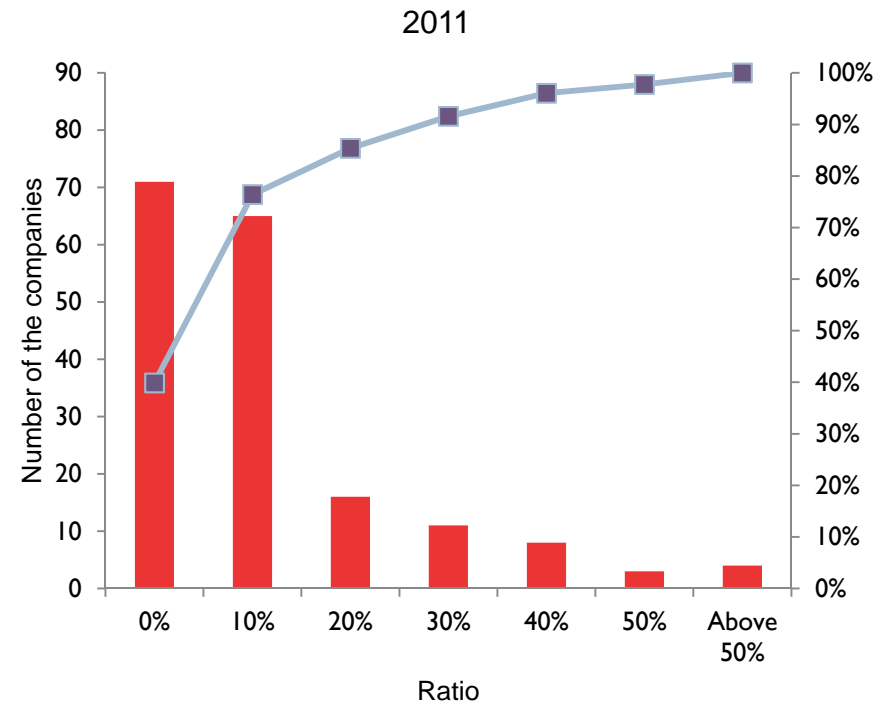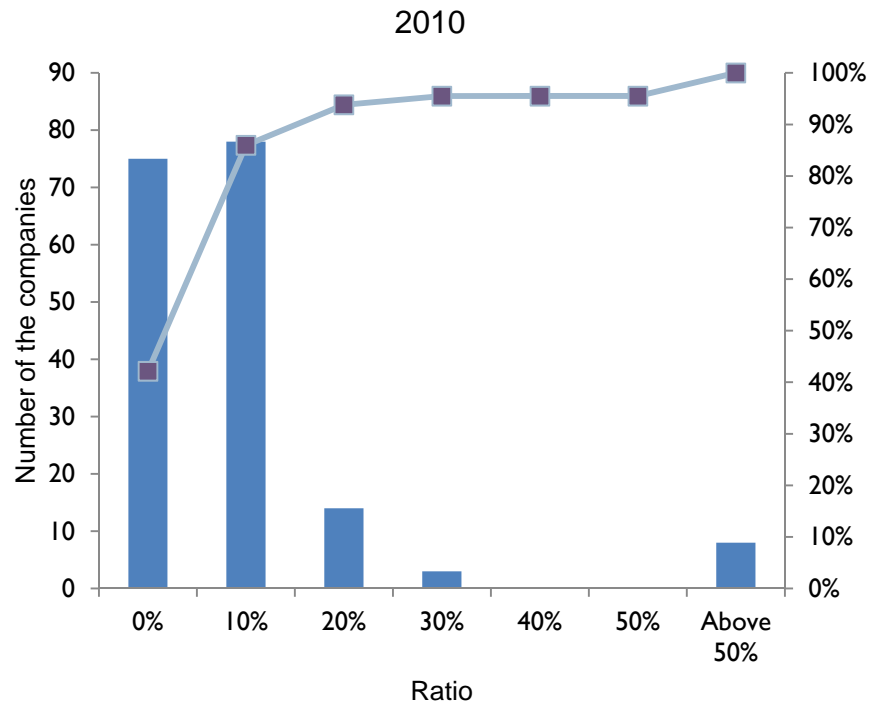
P/L analysis: Translation adjustments
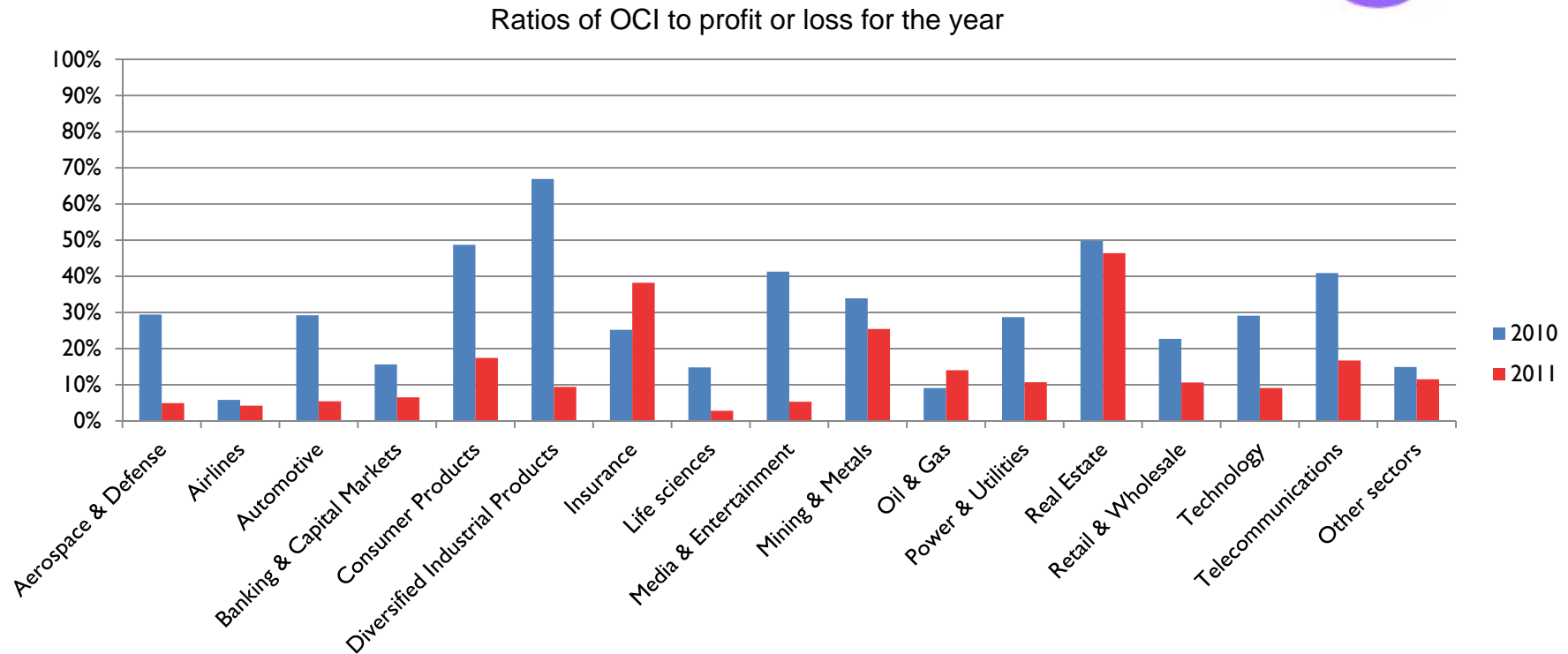
Ratios of OCI to profit or loss for the year

[Analysis by industry]
● We have omitted the analysis by industry as the analysis by country is more relevant and provides more meaningful and useful information.

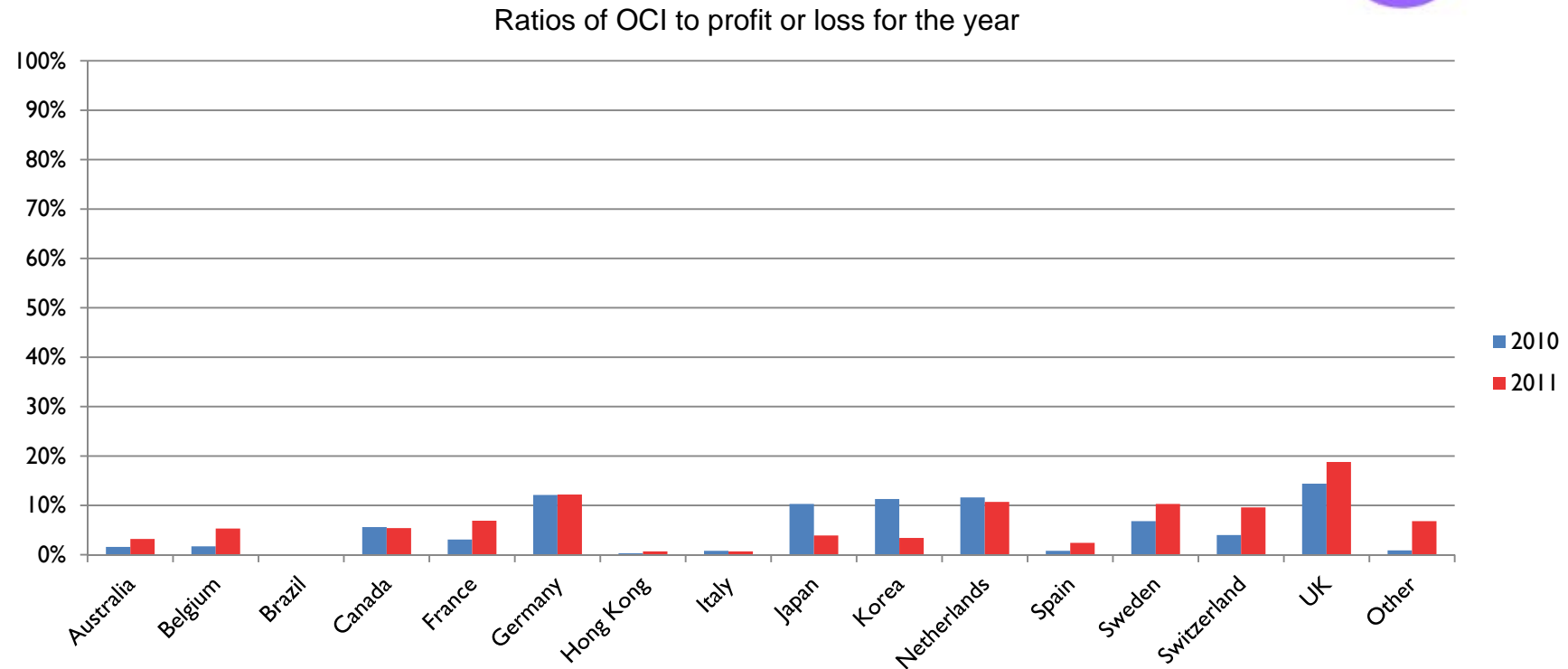# P/L analysis: Pension liabilities

Distribution chart

Ratios of OCI to profit or loss for the year

2010

2011

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

P/L analysis: Pension liabilities

Ratios of OCI to profit or loss for the year

[Analysis by country]
● **UK:** The UK companies had large pension schemes. In 2010, several UK companies recognised large OCI figures in connection with the change in the inflation rate. In 2011, most of the UK companies recognised large OCI figures mainly due to the decrease in the discount rates and the lower returns on the plan assets.

P/L analysis: Pension liabilities
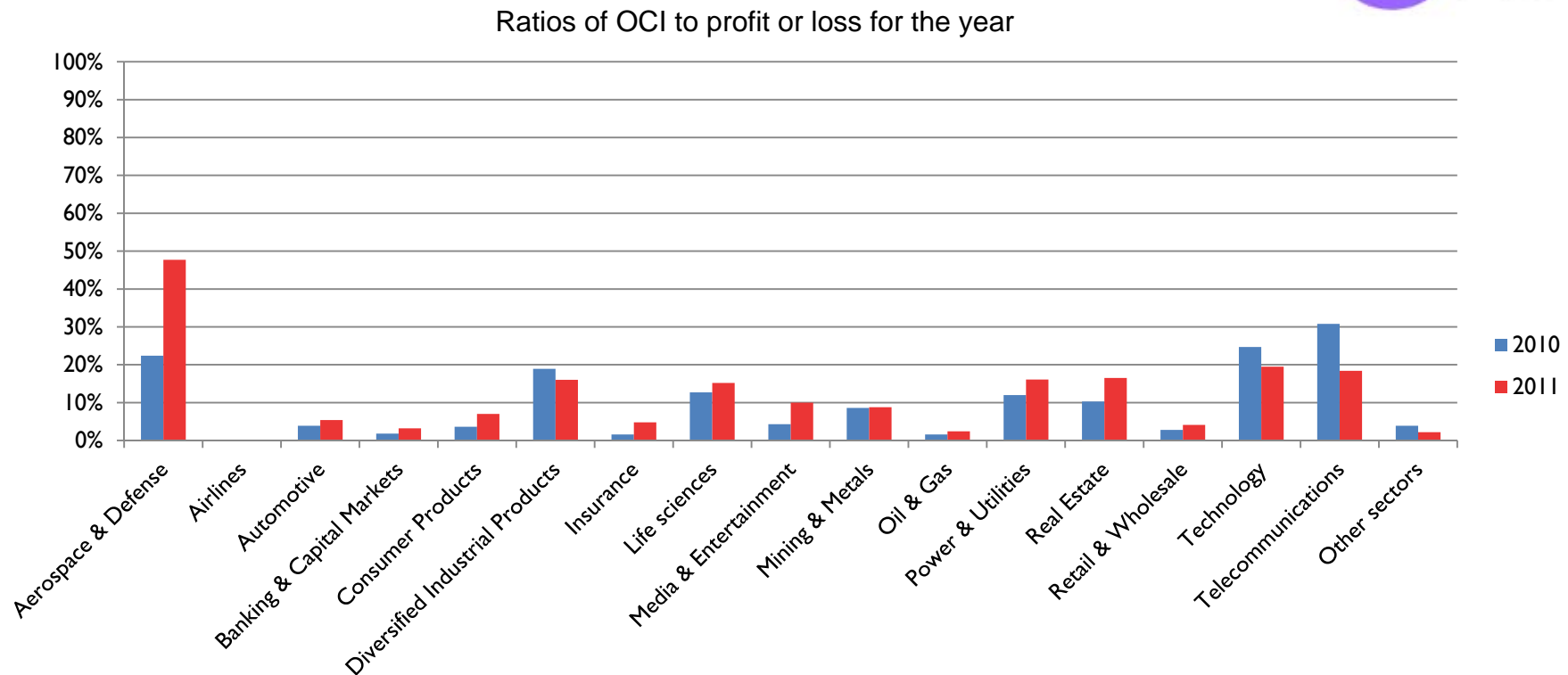
Ratios of OCI to profit or loss for the year

[Analysis by industry]
● We have omitted the analysis by industry as the analysis by country is more relevant and provides more meaningful and useful information.

# Recycling analysis: Available-for-sale financial assets

Distribution chart

Ratios of recycling adjustments to profit or loss for the year

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.
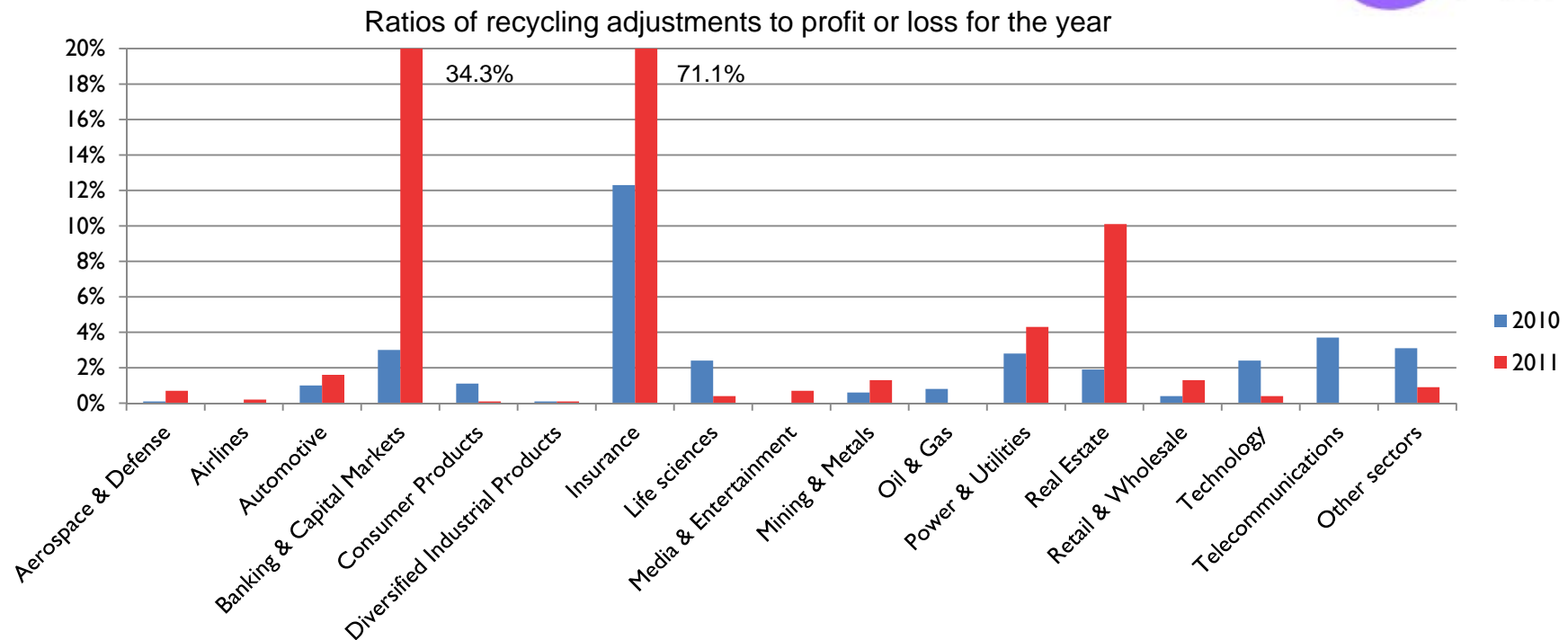
Recycling analysis: Available-for-sale financial assets

Ratios of recycling adjustments to profit or loss for the year
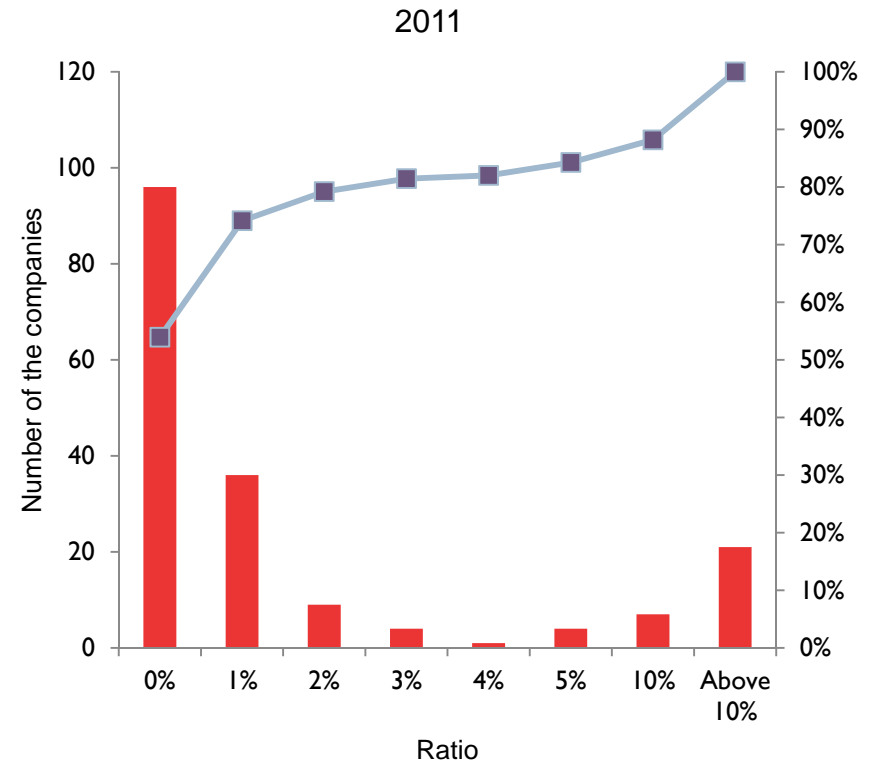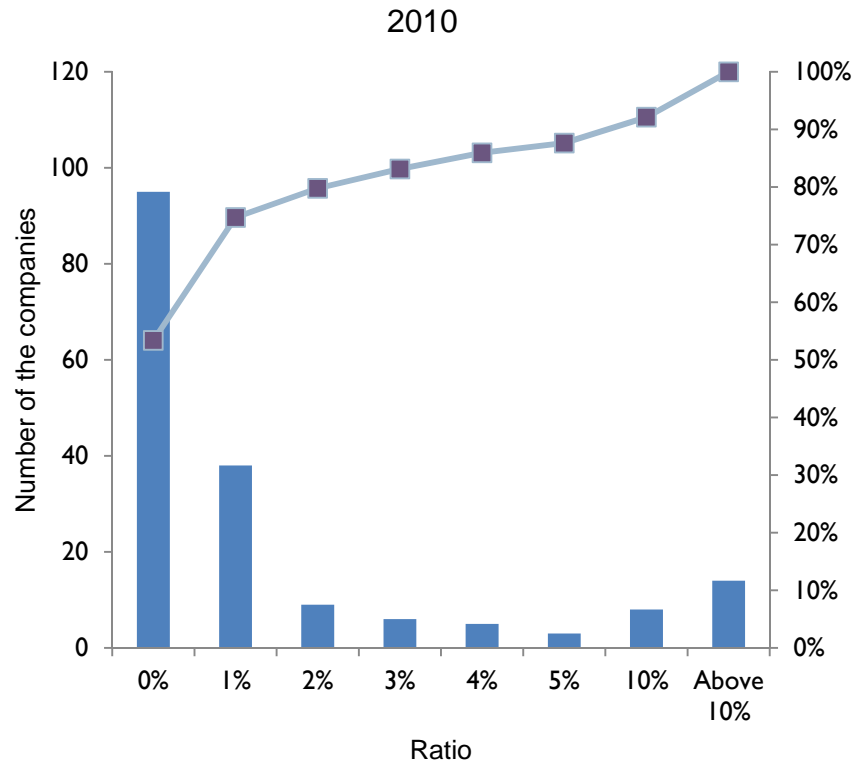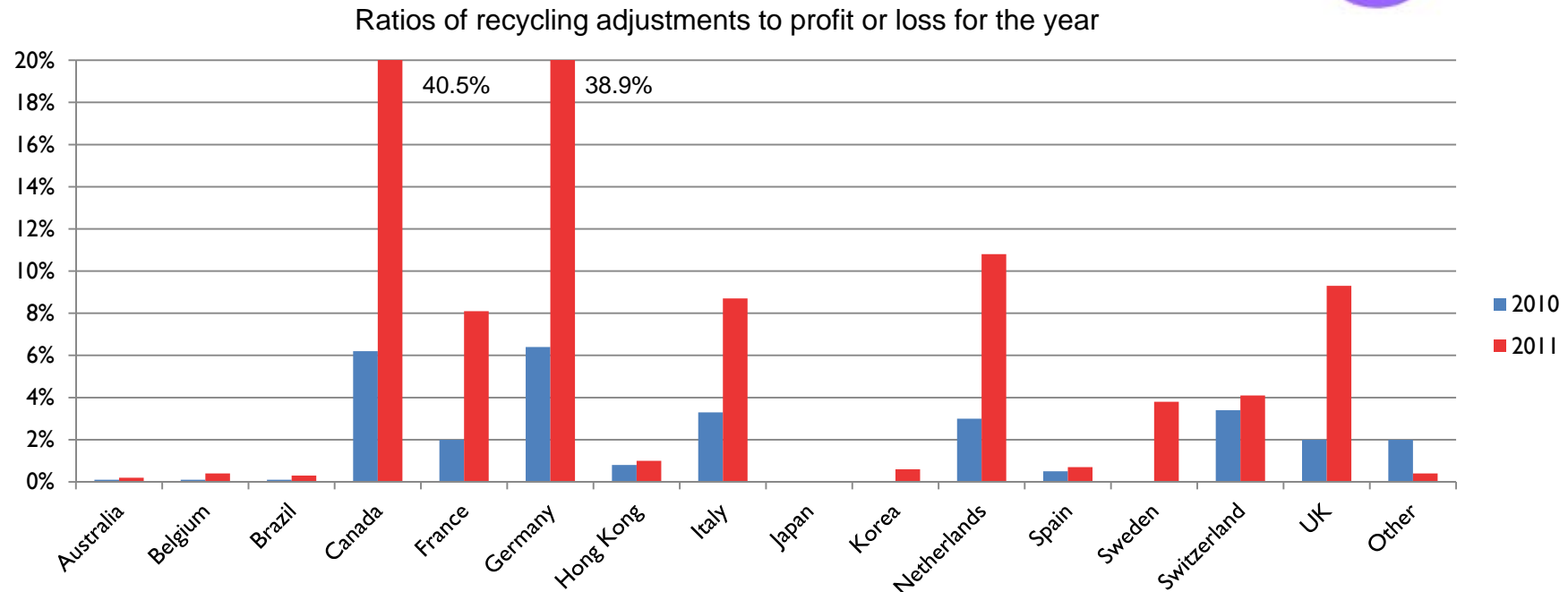
[Analysis by country]
● **Canada:** In 2011, the ratio relating to the Canadian companies was high mainly due to the level of the profit or loss for the year.
● **Germany, Italy, the Netherlands and UK:** In 2011, the ratios relating to German, Italian, Dutch and UK companies were very high primarily because several banks and insurance companies in those countries recognised impairment losses in connection with Greek sovereign bonds.

# Recycling analysis: Available-for-sale financial assets

Ratios of recycling adjustments to profit or loss for the year

34.3%   71.1%

Legend: ■ 2010 ■ 2011

[Analysis by industry]

● **Banking & Capital Markets and Insurance:** In 2011, the ratios relating to the companies in the banking & capital markets and insurance sector were high mainly because those companies recognised impairment losses in connection with Greek sovereign bonds.

● **Real Estate:** In 2011, the high ratio relating to the real estate sector was mostly due to the level of profit or loss for the year.

Distribution chart

Ratios of recycling adjustments to profit or loss for the year

2010

2011

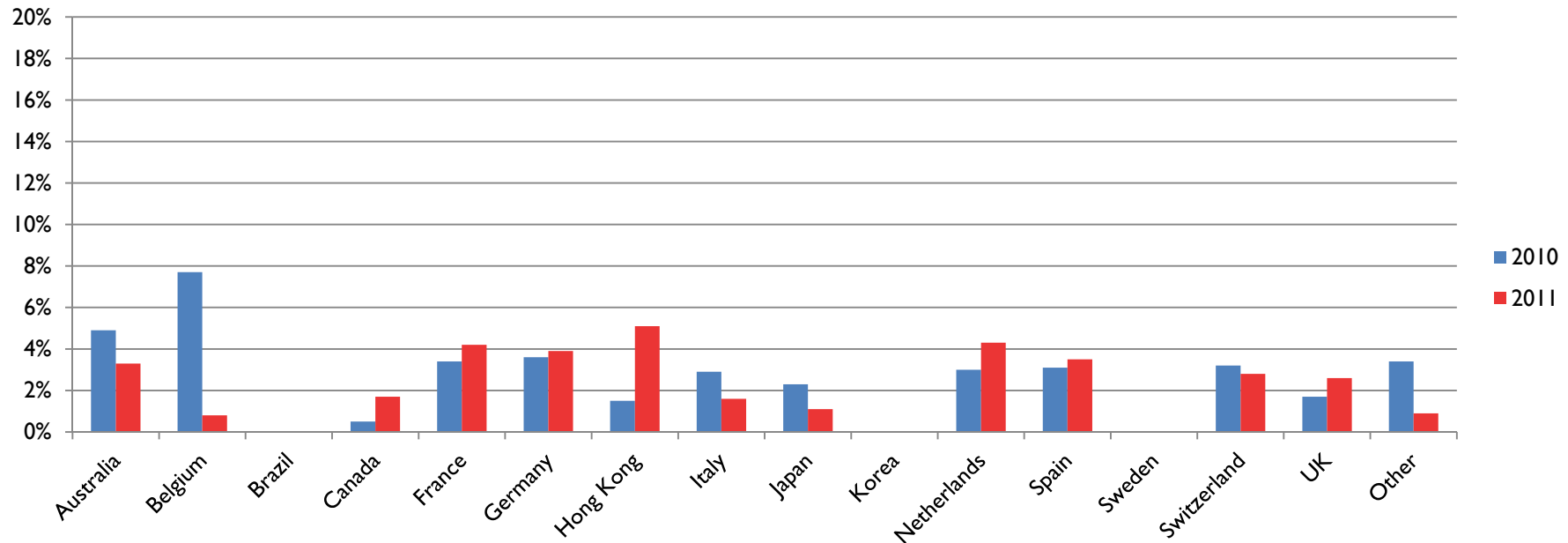Number of the companies

Ratio

Number of the companies
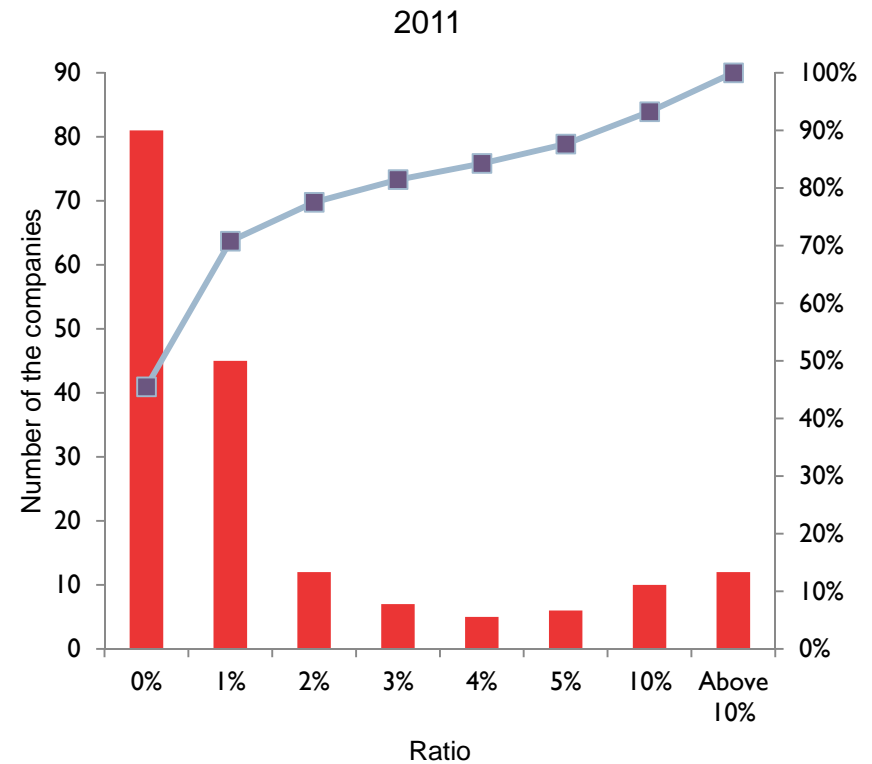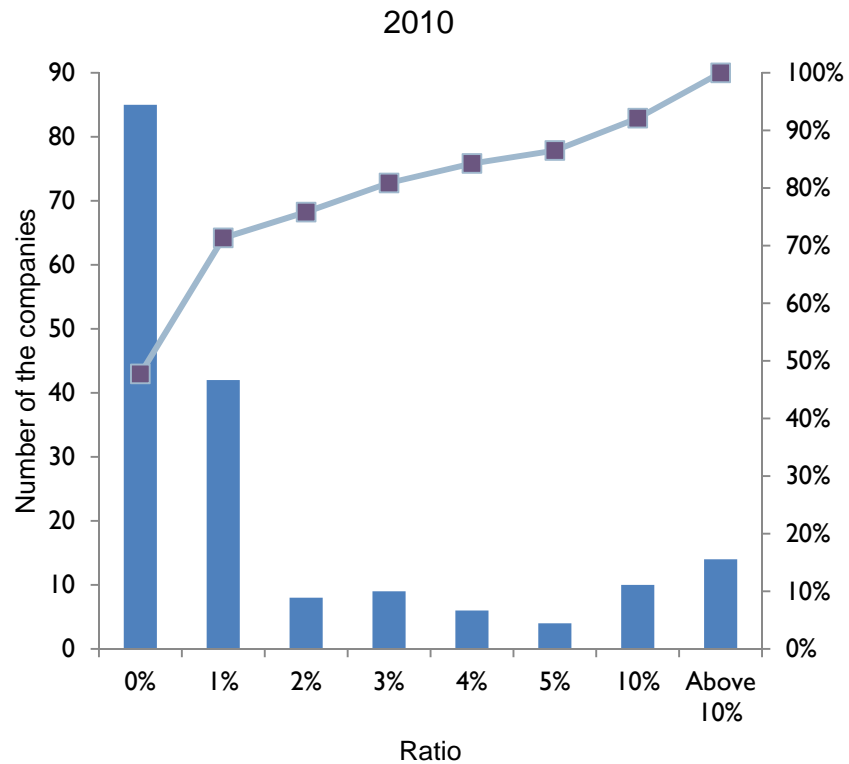
Ratio

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.
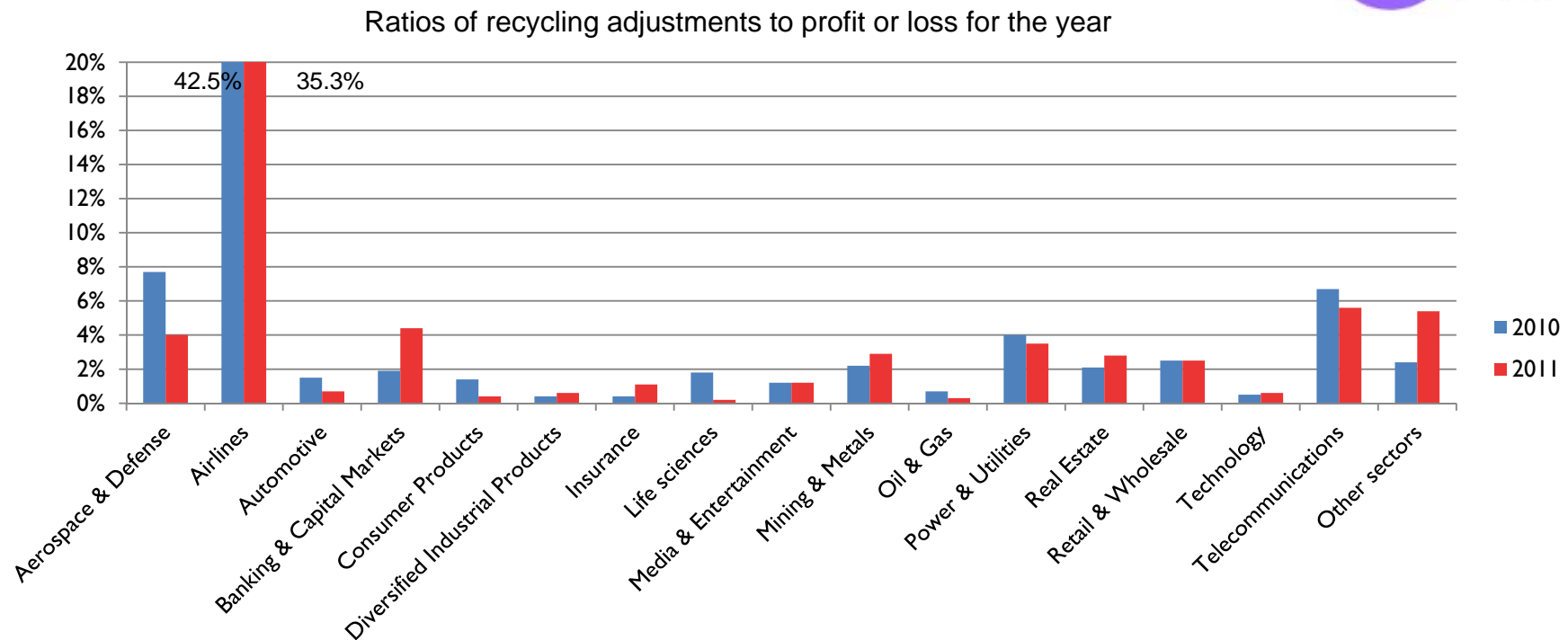
Recycling analysis: Cash flow hedges

Ratios of recycling adjustments to profit or loss for the year

[Analysis by country]
● The ratios relating to cash flow hedges were lower and we found no particular trends in the analysis by country.

Recycling analysis: Cash flow hedges

**Ratios of recycling adjustments to profit or loss for the year**

[Analysis by industry]
- **Airlines:** The airlines companies recognised recycling adjustments mainly relating to fuel price hedges. In 2010, the high ratio was partly due to the level of profit or loss for the year.
- **Telecommunications:** Several companies in the telecommunication sector recognised recycling adjustments in connection with hedging interest rate risks and foreign currency risks.

Recycling analysis: Translation adjustments
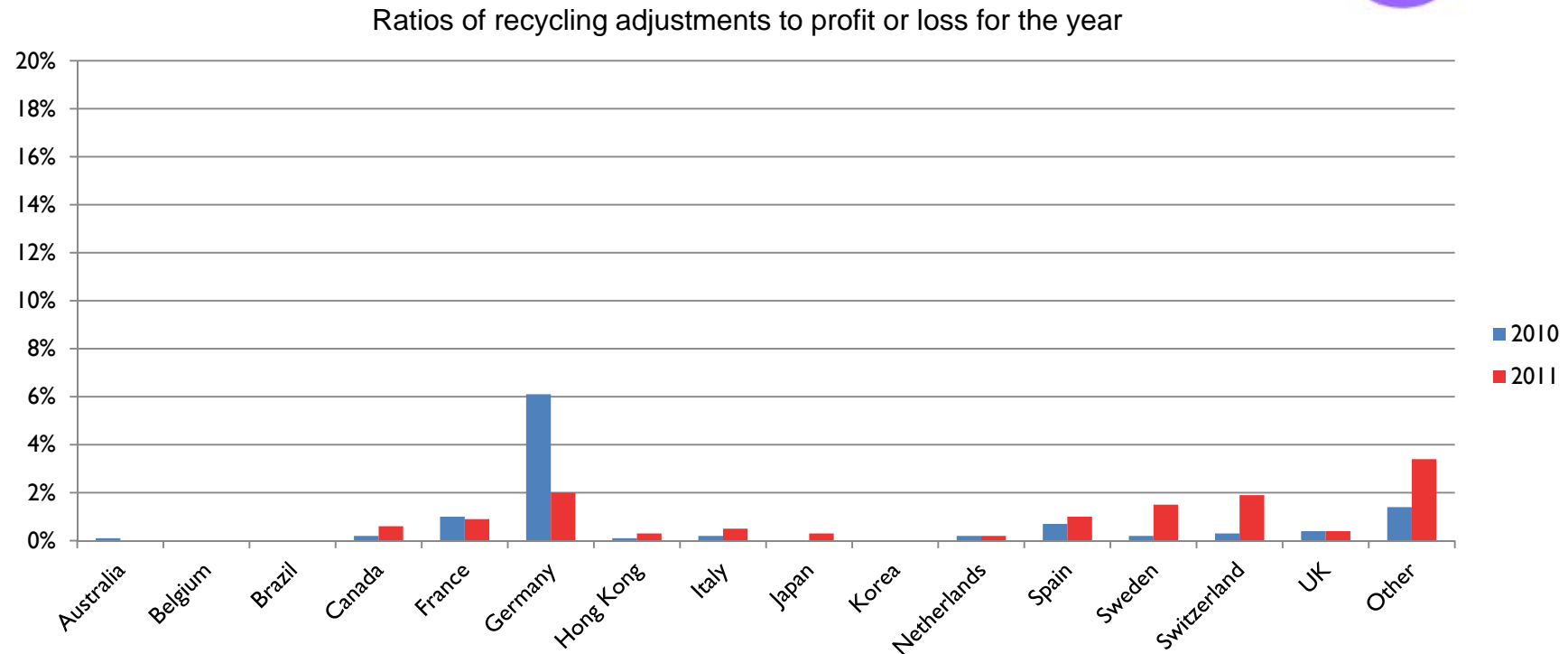
Distribution chart
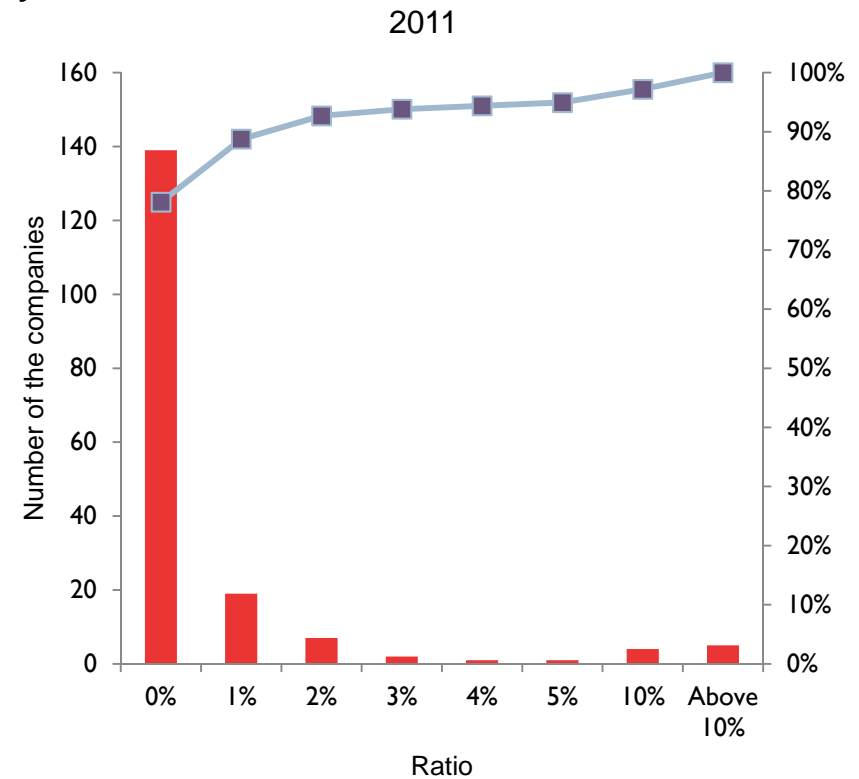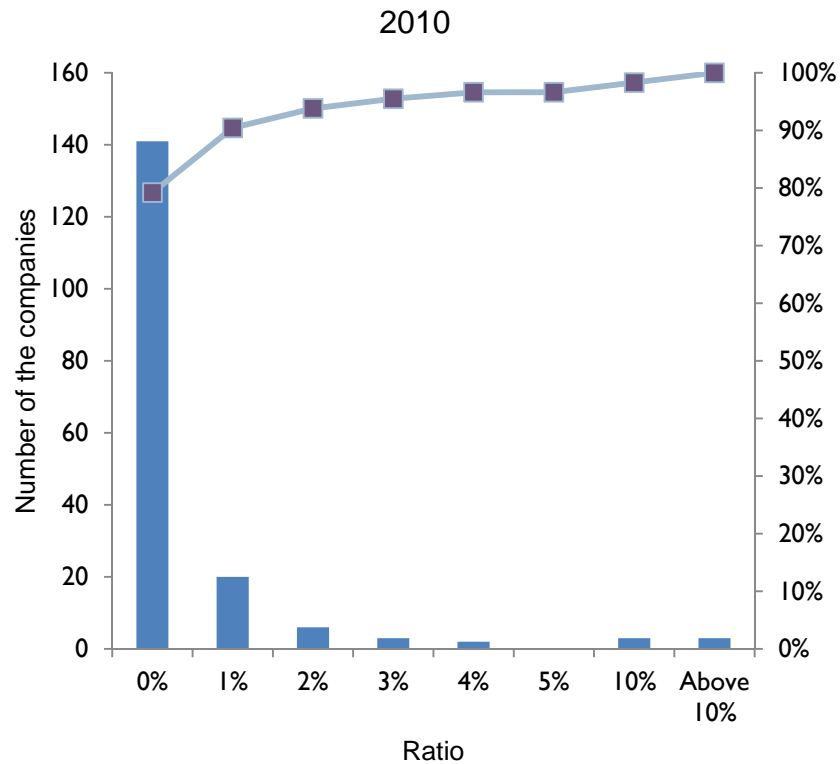
Ratios of recycling adjustments to profit or loss for the year

(Note)
Bar charts represent the number of the companies for each range. Line charts represent the accumulated percentage of the number of the companies.

Recycling analysis: Translation adjustments

Ratios of recycling adjustments to profit or loss for the year

[Analysis by country]
● **Germany:** In 2010, a German telecommunication company recognised a significant recycling adjustment in connection with the change in the business structure in UK.
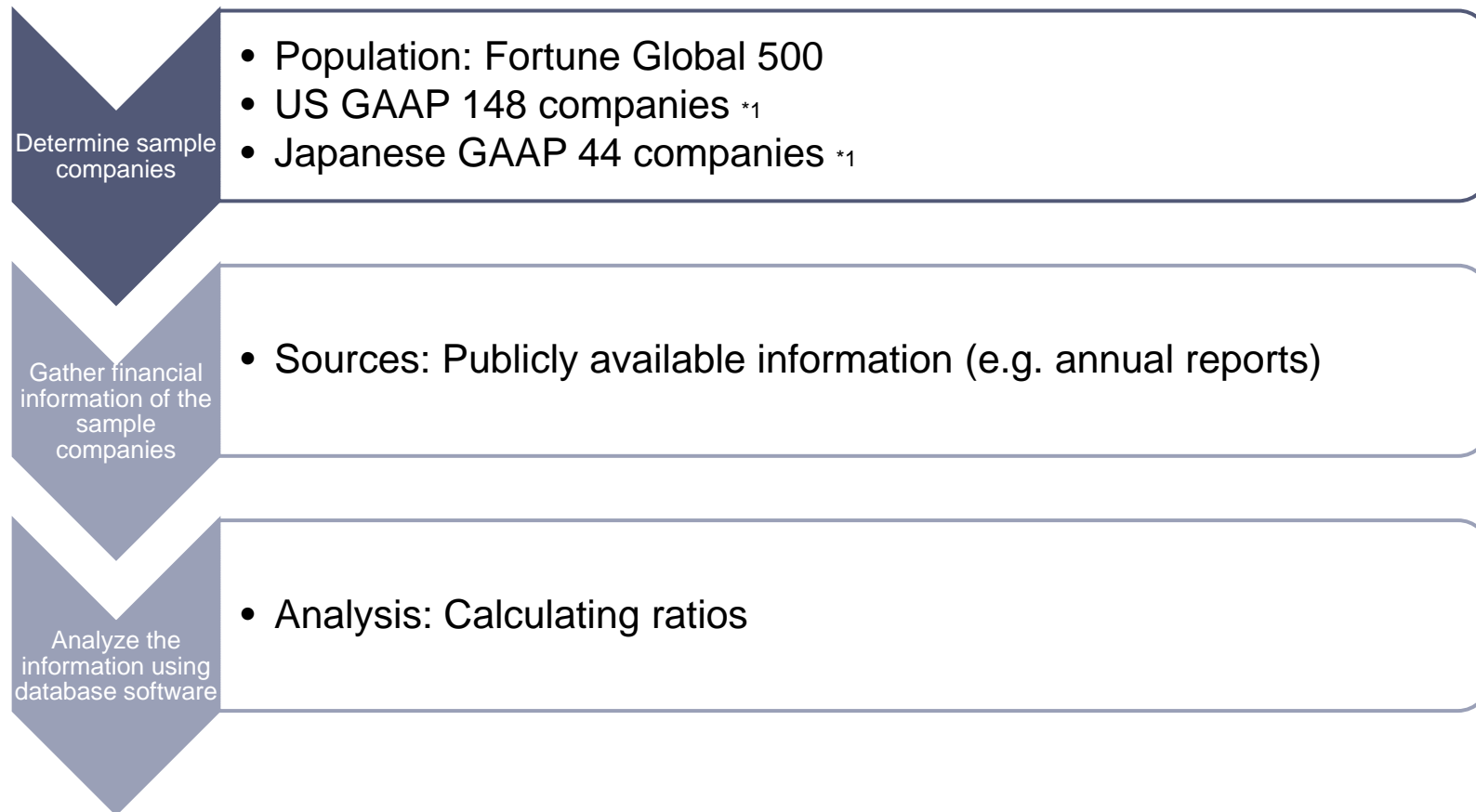
Recycling analysis: Translation adjustments

Ratios of recycling adjustments to profit or loss for the year
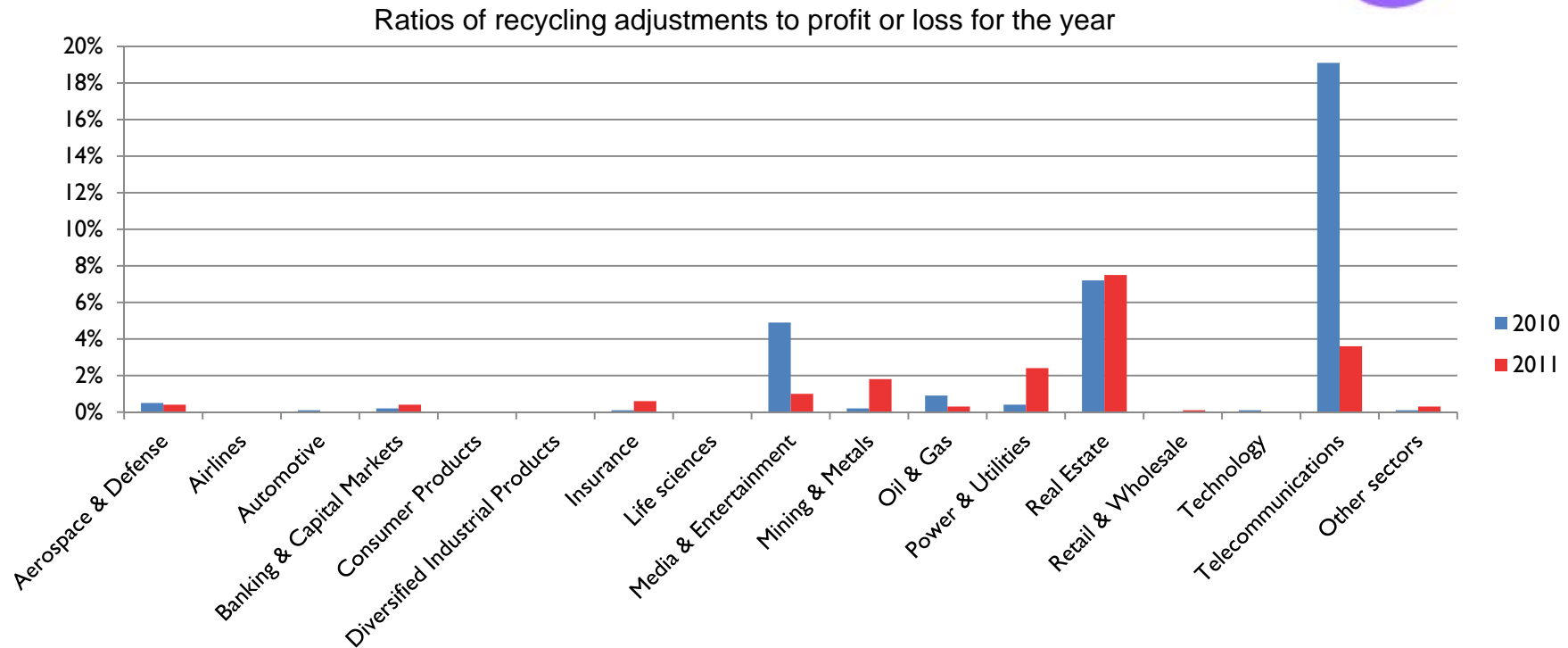
[Analysis by industry]

● **Telecommunications:** In 2010, a German telecommunication company recognised a significant recycling adjustment in connection with the change in the business structure in UK.

● **Media & Entertainment:** In 2010, a French company recognised a large recycling adjustment in connection with the disposal of the interest in an American company.

● **Real Estate:** The high ratios relating to the real estate sector were mostly due to the level of profit or loss for the year.

Appendix B

Summary of the results of supplementary analysis on the use of OCI under US GAAP and Japanese GAAP

Procedures of the supplementary research

Determine sample companies

- Population: Fortune Global 500
- US GAAP 148 companies *1
- Japanese GAAP 44 companies *1

Gather financial information of the sample companies

- Sources: Publicly available information (e.g. annual reports)

Analyze the information using database software

- Analysis: Calculating ratios

(Note)
*1 In the selections of sample companies, we excluded several companies, primarily because extremely low figures of total equity/profit or loss for the year may result in extraordinary ratios; thus would obscure the overall statistics.

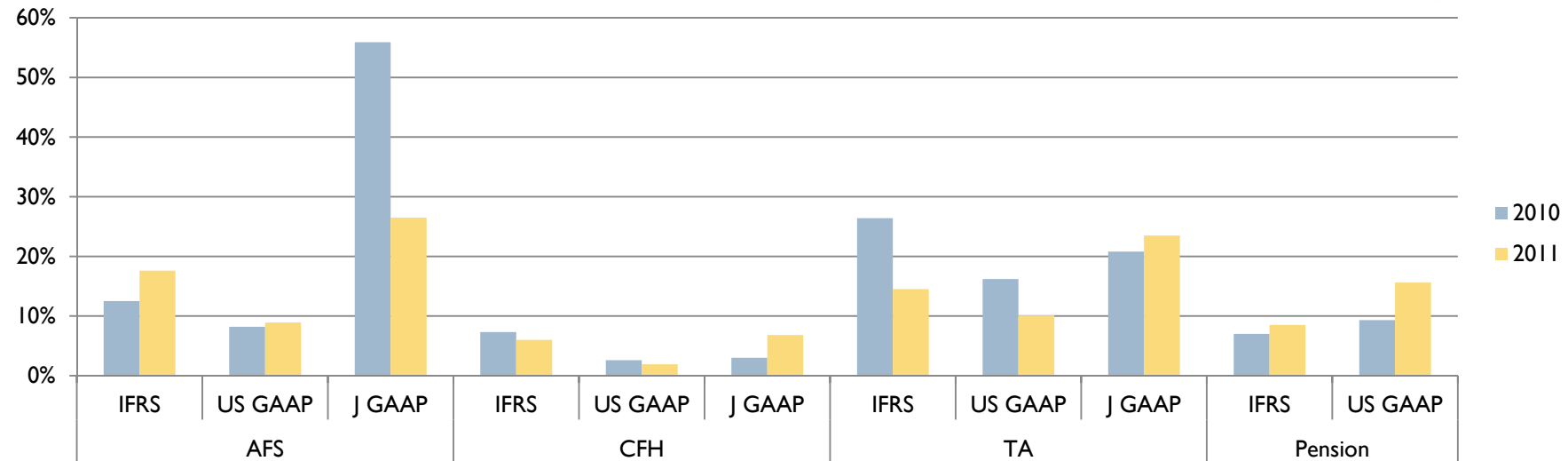# Supplementary analysis: Ratios of AOCI to total equity
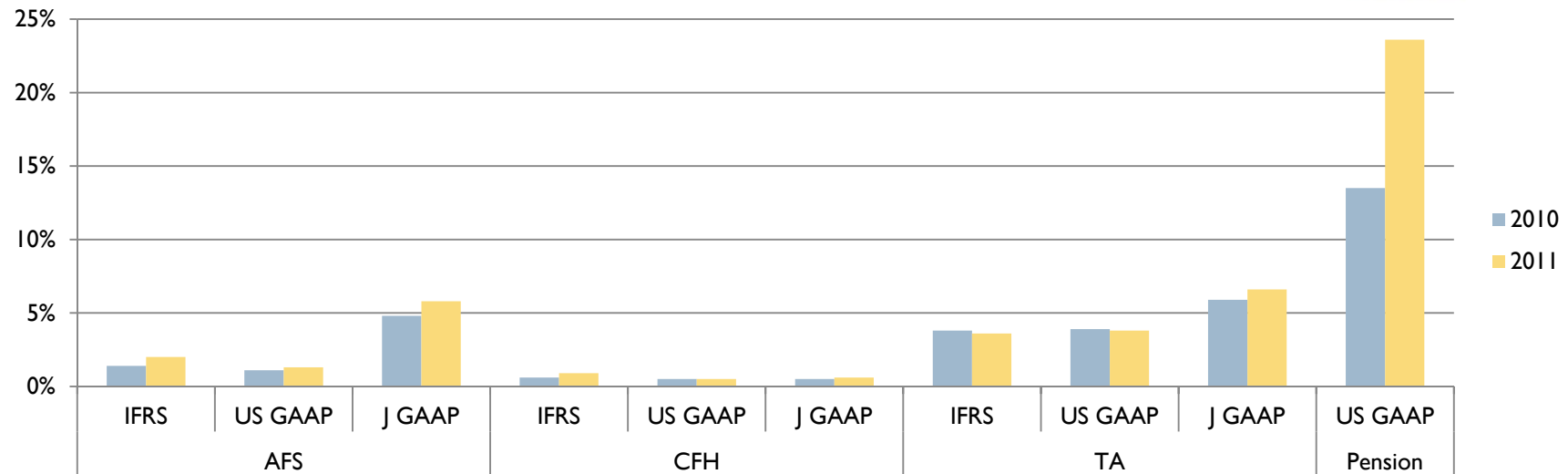
[Key Findings]
● **US GAAP:** The ratios relating to pension liabilities were very high. In particular, the ratio increased in 2011 mainly due to the changes in the discount rates reflecting the decline in the long-term interest rates.
● **Japanese GAAP:** The ratios relating to available-for-sale financial assets were high. In particular, several companies in the insurance sector and the banking & capital markets sector had large AOCI balances.
 The ratios relating to translation adjustments were high due to the appreciation of the Japanese Yen over years.

Supplementary analysis: Ratios of OCI to profit or loss for the year

[Key Findings]

● **US GAAP:** The ratios relating to translation adjustments were high because US large multinational companies and foreign private issuers had large investments in foreign subsidiaries.
The ratios relating to pension liabilities were high. In particular, the ratio increased in 2011 mainly due to the changes in the discount rates reflecting the long-term interest rates.

● **Japanese GAAP:** The ratios relating to available-for-sale financial assets were very high because they had large volumes of financial assets in this category, especially equity securities. In addition, the high ratio in 2010 was affected by the level of the profit or loss for the year relating to several companies.
The ratios relating to translation adjustments were also high due to the fluctuations of the Japanese Yen.

(Note)
 Under Japanese GAAP applicable for the years we analyzed, actuarial gains or losses and prior service costs shall not be recognised in other comprehensive income. They shall be amortized over a certain period not longer than the expected average remaining working lives of the employees.
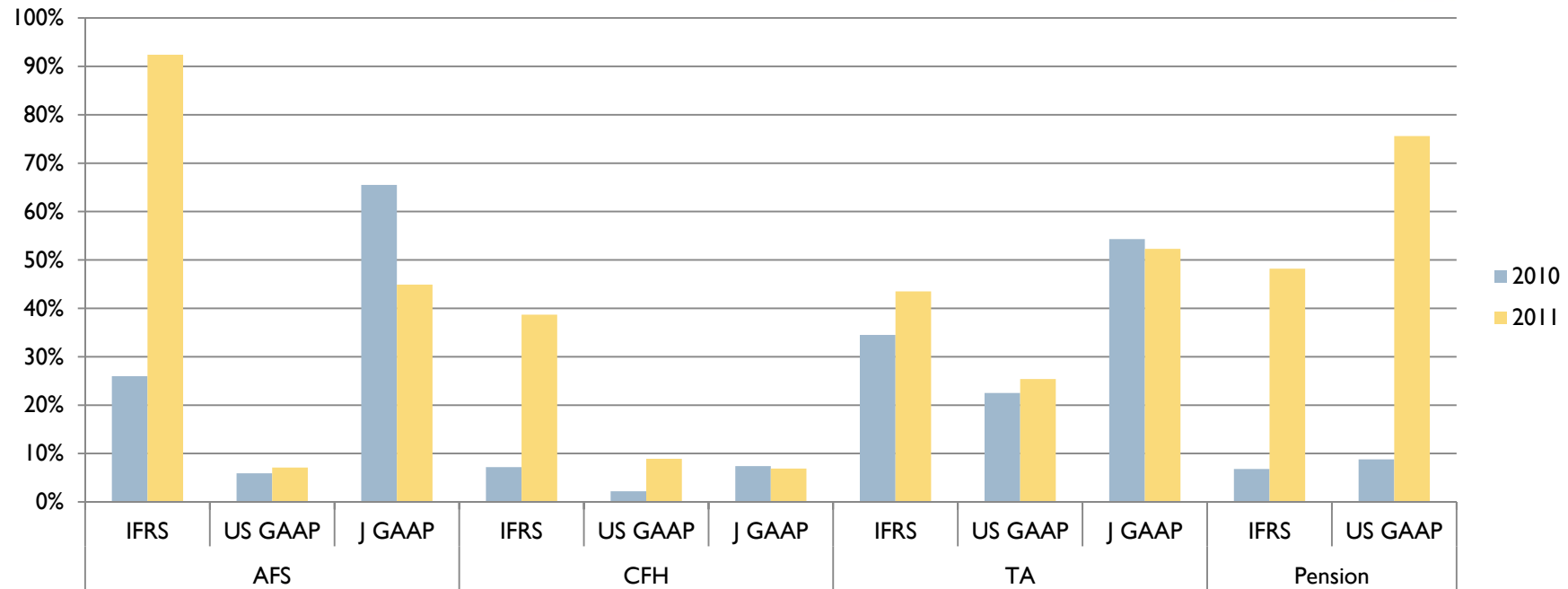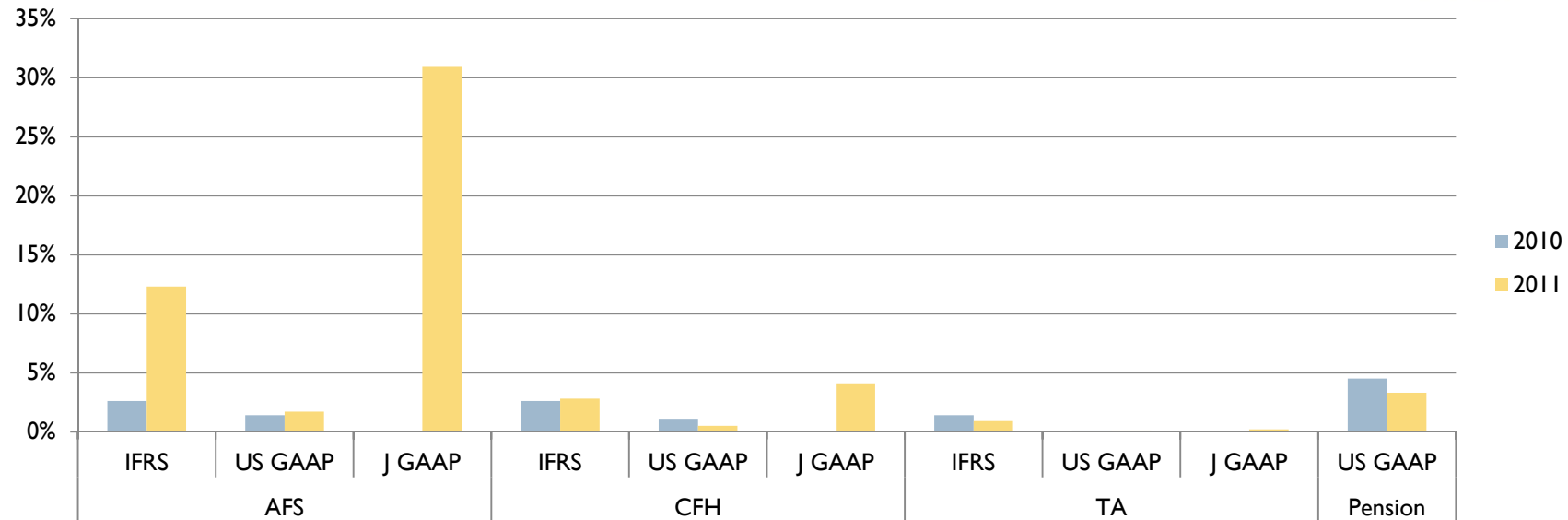
[Key Findings]
● OCI figures resulting from a business operations can be significant. Once these significant amounts are added or subtracted from the profit or loss figure, the resulting comprehensive income balance can vary considerably from the original profit or loss figure. As a result, there was no discernible pattern or consistency in the ratios of OCI to comprehensive income.

[Key Findings]

● **US GAAP:** Under US GAAP, as a minimum, amortization of a net gain or loss included in AOCI shall be included as a component of net pension cost for a year if, as of beginning of the year, that net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. The ratios relating to pension liabilities were high.

● **Japanese GAAP:** In 2011, the ratio relating to available-for-sale financial assets was very high mainly due to a specific company. The ratio would be 6.7% if the company had been excluded from the analysis.

(Note)
Under Japanese GAAP, the disclosure of recycling adjustments has been required from the fiscal year ending on and after March 31, 2012.

Comparison of accounting treatments relating to OCI items

	US GAAP	Japanese GAAP
Available-for-sale financial assets	➢ Similar to the accounting treatment under IAS 39	➢ Similar to the accounting treatment under IAS 39
Cash flow hedges	➢ Similar to the accounting treatment under IAS 39	➢ Accounting treatment is similar, but the differences remain in some areas such as the scope of cash flow hedges
Translation adjustments	➢ No major differences	➢ No major differences
Pension liabilities	➢ Gains and losses that are not recognised immediately as a component of net periodic cost shall be recognised as increases or decreases in OCI as they arise. ➢ As a minimum, amortization of a net gain or loss included in AOCI shall be included as a component of net pension cost for a year if, as of beginning of the year, that net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets.	➢ Under current Japanese GAAP, actuarial gains or losses and prior service costs shall not be recognised in other comprehensive income. They shall be amortized over a certain period not longer than the expected average remaining working lives of the employees. ➢ On May 10, 2012, the ASBJ approved the revised accounting standard and the guideline on pension accounting. ➢ Under the revised standard, actuarial gains and losses and past service costs that are yet to be recognised in profit or loss would be recognised within the AOCI, after adjusting for tax effects, and the deficit or surplus would be recognised as a liability (liability for retirement benefits) or asset (asset for retirement benefits) without any adjustments. This revision to the accounting standard would not change how to recognise actuarial gains and losses and past service costs in profit or loss.