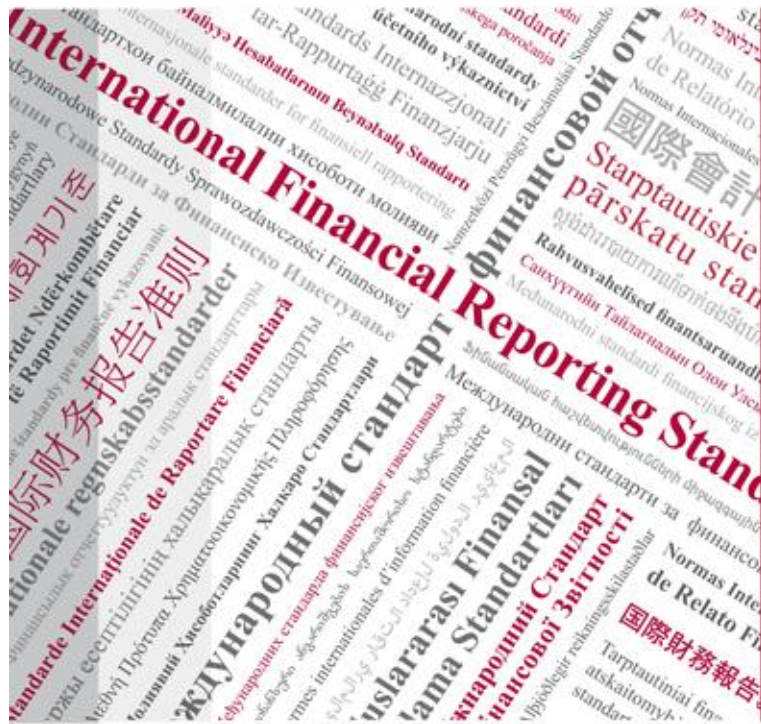


January 2013

## International Financial Reporting Standards



# Conceptual Framework: Presentation

Agenda paper 9D

Education Session – January 2013

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

- What is presentation?
- Key issues
- Overview of current IFRS related to the key issues
- Conceptual framework - possible approach

# What is presentation?

Based on the objective of IAS 1 (see IAS1.1), presentation could be described as:

the prescribed format of general purpose financial statements that ensures comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

# What is presentation?

- In general terms, presentation also describes how information about recognised items is displayed in each of an entity's financial statements ie:
  - Statement of financial position;
  - Statement of profit or loss and other comprehensive income;
  - Statement of changes in equity; and
  - Statement of cash flows.
- Display of information includes:
  - Descriptions and monetary amounts; and
  - Line items, sub-totals and totals.

In the *Agenda Consultation 2011* the majority of respondents gave a high level of importance to:

- the concept of profit or loss;
- the nature of other comprehensive income (OCI); and
- the conceptual basis for recycling.

These issues are interrelated. The approach to OCI and recycling will depend on the approach taken to the concept of profit or loss.

# Concept of profit or loss - current IFRS

- Current IFRS\* requires that the statement of profit or loss and OCI is presented in:
  - two sections of one statement:
    - Profit or loss; and
    - OCI; or
  - two statements:
    - Profit or loss; and
    - OCI.
- No consistently applied conceptual basis for:
  - recognition in each section or statement; and
  - reclassifications between sections or statements.

\* (IAS1.10A)

# Use of OCI – Current and proposed IFRS\*

IFRS	Topic	Nature of OCI	Recycling	Related profit or loss items
IFRS 9	Designated investments in equity instruments	Changes in fair value	No	Dividend income
IFRS 9	Liabilities designated as at fair value through profit or loss	Changes in fair value attributable to issuer's own credit risk	No	Other changes in fair value attributable to the liability
IFRS 9 Proposed (2012 ED)	Financial assets measured at fair value through OCI	Changes in fair value (other than those that go through profit or loss)	Yes On derecognition	Interest income Impairment
IAS 16 & IAS 38	Revaluation of property, plant and equipment and intangibles	Revaluation gain or reversals	No	Depreciation or amortisation based on revalued amount

\* Available for sale securities (IAS 39) not included as treatment will be replaced by IFRS 9 classification and measurement

# Use of OCI – Current and proposed IFRS cont:

IFRS	Topic	Treatment	Recycling	Related profit or loss items
<b>IAS 19</b>	Components of defined benefit cost	Remeasurements of the net defined benefit liability/asset	No	Service costs Net interest on the net defined benefit liability (asset)
<b>IAS 21</b>	Translation into a presentation currency (including translation of foreign operations)	Exchange differences	Yes On disposal of a foreign operation	
<b>IAS 39</b>	Cash flow hedges/hedges of net investments	Effective portion of changes in fair value of hedging instrument	Yes When the hedged item affects profit or loss	Ineffective portion of the hedging instrument
<b>Insurance Contracts Project</b>	Insurance liabilities	Changes in discount rate	Yes On disposal	Other changes in carrying value of the insurance liability



# Alternative approaches to presentation of income and expense

- Remove distinction profit or loss and OCI
  - All items of income and expense are recognised in one section and statement
  - No recycling (cash flow hedges to be considered)
- Retain the concept of profit or loss
  - Define/characterise
    - profit or loss; and/or
    - what is not profit or loss (ie OCI)
  - Develop a conceptual basis for whether to recycle and if so when
- Do not address presentation of income and expense at a conceptual level

# Possible approach - retain the concept of profit or loss

- Build on current status in IFRS
  - Recognises that profit or loss (or similar sub-total) is a useful ‘starting point’ for assessing financial performance
- Many possible ways to characterise the split between profit or loss and OCI including
  - realised/unrealised
  - recurring/non-recurring
  - cost/remeasurements
  - core/non-core (eg based on business model)
  - volatile/non-volatile
- However none seemed satisfactory or definitive

# Possible approach - overview

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- Objective
  - provide more clarity around the concepts of profit or loss, OCI and recycling
  - introduce new sections and sub-totals to reflect multi-dimensional nature of income and expense
  - retain current concept of profit or loss
- Approach
  - starting point is the current and proposed use of OCI in IFRS (but may need to revisit classification)
  - group OCI items based on common characteristics
  - basis for new sections and sub-totals
  - overlay new sub-totals onto current concept of profit or loss

# Possible approach - groups

- Group A – Individual items
  - Individual presentation based on characteristics (eg information value, size, relationship to core activities)
  - Items included when required by IFRS
  - Presented in separate sub-section in profit or loss
  - Not recycled
- Group B – Bridging items
  - Items form a bridge between two measurement attributes e.g. different measures for balance sheet and profit or loss
  - Recycle on disposal

# Possible approach – groups cont:

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- Group C – Incomplete remeasurements
  - part of a related group of items
  - relevant information only from looking at the impact of the related group of items as a whole
  - item represents partial view only
  - recycle when complementary item recognised in profit or loss

# Possible approach

Nature of presentation	Group A	Group B	Group C
Description	Individual items	Bridging items	Incomplete remeasurements
Recycling	No recycling	Recycled on disposal	Recycled on recognition of related income and expense items
Line Items	Pension remeasurements	Fair value on debt securities designated (IFRS 9 ED)	Foreign currency translation (and related hedges)
	Equity instruments designated under IFRS 9	Insurance contract - changes in discount rates	Cash flow hedges
	Effect of own credit		
	Revaluations of PPE and intangibles		
Relationship to profit or loss	Presented as a separate component of profit or loss	Presented as separate component of profit or loss	Presented outside of profit or loss

# Illustrated Example

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Statement of comprehensive income	Year	Year
<b>Operating and financing</b>		
All other items	X	X
Extra depreciation on revalued assets	(X)	(X)
Items recycled (see below)	X	X
<b>Profit before individual items</b>	<b>X</b>	<b>X</b>
<b>Group A - Individual Items</b>		
Pension remeasurements	X	X
Equity instruments designated under IFRS 9	X	X
Effect of own credit	X	X
Revaluations of PPE and intangibles	X	X
Total of individual items	X	X
<b>Profit after individual items, but before bridging items</b>	<b>X</b>	<b>X</b>
<b>Group B - Bridging items</b>		
Fair value on some debt securities (IFRS 9 ED)	X	X
Insurance contract - changes in discount rates	(X)	(X)
Items recycled	(X)	(X)
<b>Bridging items, after recycling</b>	<b>X</b>	<b>X</b>
<b>Profit after individual and bridging items</b>	<b>X</b>	<b>X</b>
<b>Group C - Incomplete remeasurements</b>		
Foreign currency translation (and related hedges)	X	X
Cash flow hedges	X	X
Items recycled	(X)	(X)
Total incomplete remeasurements	X	X
<b>Total comprehensive income for the period</b>	<b>X</b>	<b>X</b>

## Open issues:

- Allocation of line items to groups
- Relationship of groups to the profit or loss sub-total
- Presentation of tax

