STAFF PAPER

16 – 17 July

IFRS Interpretations Committee Meeting

Project	Annual Improvements to IAS 1		
Paper topic	Presentation of items of other comprehensive income arising from equity accounted investments		
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Introduction

1. In April 2013 the IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify an issue in IAS 1 *Presentation of Financial Statements* related to the presentation of items of other comprehensive income (OCI). Specifically, the submitter requested that the Interpretations Committee should revise the presentation requirements in paragraph 82A of IAS 1 to clarify how an entity should present its share of the OCI of associates and joint ventures accounted for using the equity method. This request resulted as a consequence of the amendments to IAS 1 that were issued in June 2011 with an effective date of 1 July 2012.

2. The structure of the paper is as follows:

    (a) Background;

    (b) Current views of the presentation of items of OCI arising from equity accounted investments;

    (c) Staff analysis;

    (d) Outreach summary;

    (e) Recommendation;

    (f) Appendix A—Proposed amendment to IAS 1.

(g) Appendix B—Basis for Conclusions

(h) Appendix C—Agenda criteria assessment

(i) Appendix D—Submission

Background

3. In June 2011 the IASB issued amendments to IAS 1 that became effective on 1 July 2012. Among these amendments was a revision to the requirements for the presentation of items of OCI, which prior to the revisions were contained in paragraph 82. The amendments deleted the portion of paragraph 82 related to components of OCI (82(f)—(i)) and introduced new requirements in paragraph 82A, which is reproduced below:

> 82A The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (**including share of the other comprehensive income of associates and joint ventures accounted for using the equity method**) and grouped into those that, in accordance with other IFRSs:
>
> (a) will not be reclassified subsequently to profit or loss; and
>
> (b) will be reclassified subsequently to profit or loss when specific conditions are met.

4. The submitter asserts that these amendments revised the presentation requirements for OCI in a manner that has resulted in ambiguity and inconsistencies with equity accounting. In particular, it is unclear whether the IASB intends to require the presentation of items of OCI arising from equity method investments separately by nature or in aggregate. The submitter presents three views that they have identified in practice for these items of OCI:

(a) presentation of items aggregated in a single line item

(b) presentation of items separately by nature

(c) presentation of items separately by nature aggregated within the corresponding line item of similar items of the reporting entity

5. These views are discussed in more detail below.

Requirements prior to the June 2011 amendments

6. Before the June 2011 amendments to IAS 1 the requirements for information to be presented in the statement of comprehensive income were as follows

> 82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:
>
> (a) revenue;
>
> (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
>
> (b) finance costs;
>
> (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
>
> (ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);
>
> (d) tax expense;
>
> (e) a single amount comprising the total of:
>
> > (i) the post-tax profit or loss of discontinued operations and
> >
> > (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
>
> (f) profit or loss;
>
> (g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

7. These requirements in paragraph 82 were interpreted as requiring a single line item for the aggregate of items of OCI arising from equity method investments. This is in contrast to the revised paragraph 82A which some interpret to suggest that such components may be required to be classified by nature.

Current views of the presentation of items of OCI arising from equity accounted investments

8. The submitter has noted that data from annual financial statements on this topic is not yet available because the amendments to IAS 1 only came into effect on 1 July 2012. There is however some limited data available from interim reporting, from which practitioners have developed three general views. It should be noted that all three views assume that the amounts are classified by whether or not the items will be reclassified (recycled) to profit or loss. The inconsistency arises from whether to report the items by nature or to aggregate them (and if aggregated, whether to do so separately or within the items of the reporting entity).

View 1—Presentation in aggregate in separate lines

9. View 1 assumes that items of OCI arising from equity accounted investments are themselves different in nature from other items of the reporting entity, and therefore should be presented in aggregate as a single line item. For example:

Items that will not be reclassified to profit or loss:		
Share of other comprehensive income (expense) of associates, net of tax, that will not be reclassified	*xx*	*xx*
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income (expense) of associates, net of tax, that may be reclassified	*xx*	*xx*

10. This view is consistent with practice prior to the June 2011 amendments, the only change being the disaggregation by whether or not items will be reclassified to profit or loss. As explained in the following section, we think that this view is the most aligned with the IASB's intentions in the amendments. We also consider that View 1 is most consistent with existing Implementation Guidance for IAS 1, which presents a single line item of OCI from equity accounted investments. However, this is inconclusive as the description of that single item indicates presentation by nature, which could be interpreted to be more in alignment with View 2.

View 2—Presentation by nature in separate lines

11. View 2 assumes that paragraph 82A requires items of OCI arising from equity accounted investments to be presented in separate lines by nature. For example:

Items that will not be reclassified to profit or loss:		
Share of gain (loss) on property revaluation of associates	*xx*	*xx*
Share of remeasurements of defined benefit pension plans of associates	*xx*	*xx*
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets of associates	*xx*	*xx*

View 3—Presentation by nature in the same lines as similar items arising from the reporting entity

12. View 3 assumes that paragraph 82A requires an aggregation of items of OCI arising from equity accounted investments with items of the same nature of the reporting entity's own OCI. Each such line would include gains (losses) from both the entity's own OCI and that of its associates and joint ventures. For example:

Items that will not be reclassified to profit or loss:		
Gains on property revaluation (including amounts of associates)	*xx*	*xx*
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets (including amounts of associates)	*xx*	*xx*

13. This view is not consistent with the existing Implementation Guidance which shows presentation of a line item of the share of OCI of associates by nature separately from the OCI of the reporting entity, nor is it consistent with requirements prior to the June 2011 amendments.

14. The difference between View 2 and 3 results primarily from different readings of the term ‘including’ in the following wording of IAS 1.82A: “*present line items for amounts of other comprehensive income in the period, classified by nature (**including** share of the other comprehensive income of associates and joint ventures accounted for using the equity method)*”.

Staff analysis

15. We think that View 1—the presentation of items of OCI of equity accounted investments in a single line item classified by whether or not they may be reclassified to profit or loss—is aligned with the IASB’s intention in making the amendments to IAS 1. That View 2 and 3 have arisen in practice is an indication that paragraph 82A is, at the least, unclear. The remainder of this section expands on our reasons for supporting View 1.

16. As mentioned above, View 1 is consistent with practice prior to the June 2011 amendments except that items will be classified into whether or not they are recycled to profit or loss. During its deliberations on the 2011 amendments, the IASB decided to require classification OCI by whether it will or will not be reclassified to profit or loss.[1] The IASB did not however discuss changing the presentation requirements specific to an entity’s share of OCI from equity accounted investments during these deliberations, and nor did it identify the issue in the Basis of Conclusions on IAS 1. This is apparent in the Exposure Draft (ED) *Presentation of Items of Other Comprehensive Income (Proposed Amendments to IAS 1)* in which paragraph 82A requires presentation of amounts from equity accounted investments as a single item, separate from the requirement to classify by nature. That ED version of paragraph 82A reads as follows:

[1] See paragraph BC54G—BC54H of the Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

> 82A As a minimum, the other comprehensive income section shall include line items that present the following amounts for the period:
>
> (a) items of other comprehensive income grouped into those that, in accordance with other IFRSs:
>
> > (i) will be reclassified subsequently to profit or loss when specific conditions are met, and
> >
> > (ii) will not be reclassified subsequently to profit or loss.
>
> **(b) share of the other comprehensive income of associates and joint ventures accounted for using the equity method**; and
>
> (c) total other comprehensive income.

17. There is therefore a lack of basis on which to assume that there was a change from the prior requirement that excluded the share of the other comprehensive income of associates and joint ventures accounted for using the equity method from presentation by nature. Additionally, View 1 is most consistent with current Implementation Guidance that presents a single line item of OCI from equity accounted investments, though we do note that the Implementation Guidance remains inconclusive because that single item is labelled in a manner that indicates presentation by nature. In the recommendation below we will seek to clarify the Implementation Guidance.

18. Furthermore, to present items of OCI arising from equity accounted investments by nature (as suggested by View 2 and 3) is inconsistent with the presentation requirements of an entity's share of the profit or loss of equity accounted investments that is contained in IAS 1 paragraph 82, which requires presentation of the share of profit or loss on a single line:

> 82 In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:
>
> …
>
> **(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;**

…

19. This form of presentation for profit and loss has not changed from what was required prior to the June 2011 amendments. We think it is therefore inconsistent to require presentation of items of OCI arising from equity accounted investments by nature, particularly as the IASB had no deliberations on that issue.

20. Support for the aggregate presentation in a single line item can be further considered in the light of the principles of accounting for joint arrangements that were introduced in IFRS 11 *Joint Arrangements*, which superseded IAS 31 *Interests in Joint Ventures* in May 2011. Among its changes was the elimination of proportionate consolidation when accounting for interests in jointly controlled entities. In IAS 31, entities could recognise interest in a jointly controlled entity using proportionate consolidation and report that interest in two different ways:

    (a) combining its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items of its own financial statement (this is comparable to View 3 above); or

    (b) reporting a separate line item for its share of each of the assets, liabilities, income and expenses of the jointly controlled entity (comparable to View 2 above).

21. The IASB decided that it was inappropriate to use proportionate consolidation for interests in joint arrangements when the parties do not have right to the arrangement's assets or obligations for the arrangement's liabilities (ie joint ventures). Entities are instead be required to apply the equity method in IAS 28 *Investments in Associates and Joint Ventures*, which accounts for an entity's interest in the net assets of an investee and share in profit or loss in a single line item. Consequently, it is reasonable that OCI should be presented in the same manner. The IASB thought that the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* would provide a higher degree of detail than IAS 31.[2]

[2] See paragraph BC12 of the Basis for Conclusions on IFRS 11 *Joint Arrangements.*

22. IFRS 12 contains disclosure requirements that are designed to enable users to understand the nature of, and risks associated with, an entity's interest in other entities. Specifically, paragraph 20 requires that:

> 20 An entity shall disclose information that enables users of its financial statements to evaluate:
>
> (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and
>
> (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).

23. We think in the case there would be a single material item within an associate's OCI that needed separate disclosure, such a disclosure would be given in order to meet the objective in IFRS 12.20.

Outreach summary

24. We performed outreach with IFASS, IOSCO, and ESMA, and asked:

    (a) What is the prevalent approach in your jurisdiction for the presentation of the share of the other comprehensive income of associates and joint ventures accounted for using the equity method under IAS 1 (as amended effective 1 July 2012)?

25. We received 15 responses on this topic as of the comment deadline from the following jurisdictions: Europe (8), Asia (3), Americas (2), Oceania (1), and Africa (1). The vast majority of respondents agreed they believed the wording of paragraph 82A is ambiguous, and many noted that practice in their jurisdiction was mixed. The majority of respondents across different jurisdictions observed that View 1 was most prevalent in practice, but many of the respondents also observed View 2. To a lesser extent, some observed View 3.

Recommendation

26. It is our view that the structure of paragraph 82A of IAS 1 has resulted in unintended ambiguity, and does not represent the IASB's intentions for the June 2011 amendments of IAS 1. We therefore recommend:

    (a) to revise paragraph 82A through an annual improvement to clarify that the requirements of IAS 1 concerning the presentation of items of OCI arising from equity accounted investments shall be presented in aggregate in a two line items classified by whether or not they may be reclassified to profit or loss; and

    (b) to revise the Implementation Guidance in IAS 1 to reflect the proposed revision of paragraph 82A.

27. Our proposed amendments to IAS 1 are included in Appendix A.

Question for the IFRS Interpretations Committee
Does the Interpretations Committee agree to propose that the IASB should amend paragraph 82A of IAS 1 and provide consequential amendments to Implementation Guidance through an annual improvement to clarify the requirements for the presentation of items of OCI arising from equity accounted investments?

Appendix A—draft proposed amendment to IAS 1

A1. The draft proposed amendment to IAS 1 is presented below:

Paragraph 82A is amended as follows (new text is underlined and deleted text is struck through).

Information to be presented in the other comprehensive income section

82A The other comprehensive income section shall ~~present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs~~ present line items for the amounts for the period of:

(a) items of other comprehensive income (excluding amounts in (b)), classified by nature, grouped into those that, in accordance with other IFRSs:

~~(a)~~(i) will not be reclassified subsequently to profit or loss; and

~~(b)~~(ii) will be reclassified subsequently to profit or loss when specific conditions are met~~.~~; and

(b) share of the other comprehensive income of associates and joint ventures accounted for using the equity method, analysed between portions that:

(i) will not be reclassified subsequently to profit or loss; and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Guidance on implementing IAS 1 *Presentation of Financial Statements* is amended as follows (new text is underlined and deleted text is struck through).

Part I: Illustrative presentation of financial statements

XYZ Group – Statement of financial position as at 31 December 20X7
(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	142,500	156,000
	901,620	945,460
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	564,880	578,740
Total assets	1,466,500	1,524,200

XYZ Group – Statement of financial position as at 31 December 20X7
(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	903,700	782,900
Non-controlling interests	70,050	48,600
Total equity	973,750	831,500
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	177,650	238,280
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	315,100	454,420
Total liabilities	492,750	692,700
Total equity and liabilities	1,466,500	1,524,20 0

Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied
XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates[(a)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(b)]	400	(700)
Income tax relating to items that will not be reclassified[(c)]	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations[(d)]	5,334	10,667
Available-for-sale financial assets[(d)]	(24,000)	26,667
Cash flow hedges[(d)]	(667)	(4,000)
Income tax relating to items that may be reclassified[(c)]	4,833	(8,334)
	(14,500)	25,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Profit attributable to:		
Owners of the parent	97,000	52,400

Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied
XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in thousands of currency units)

	20X7	**20X6**
Non-controlling interests	24,250	13,100
	121,250	65,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

Other comprehensive income for the year, after tax:	**20X7**	**20X6**
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	600	2,700
Remeasurements of defined benefit pension plans	(500)	1,000
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates	400	(700)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4,000	8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
	(14,500)	25,000
Other comprehensive income for the year, net of tax[(c)]	(14,000)	28,000

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(b) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
(d) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7 (illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature) (in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[(a)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in two statements)
(in thousands of currency units)

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[a]	400	(700)
Income tax relating to items that will not be reclassified[b]	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified[b]	4,833	(8,334)
	(14,500)	25,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

(a) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

Examples of statement of profit or loss and other comprehensive income when IFRS 9 *Financial Instruments* is applied
XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates[(a)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(b)]	400	(700)
Income tax relating to items that will not be reclassified[(c)]	5,834	(7,667)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations[(d)]	5,334	10,667
Cash flow hedges[(e)]	(667)	(4,000)
Income tax relating to items that may be reclassified[(f)]	(1,167)	(1,667)
	3,500	5,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Profit attributable to:		
Owners of the parent	97,000	52,400

Examples of statement of profit or loss and other comprehensive income when IFRS 9 *Financial Instruments* is applied
XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)
(in thousands of currency units)

	20X7	**20X6**
Non-controlling interests	24,250	13,100
	121,250	65,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

Other comprehensive income for the year, after tax:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	600	2,700
Investments in equity instruments	(18,000)	20,000
Remeasurements of defined benefit pension plans	(500)	1,000
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates	400	(700)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4,000	8,000
Cash flow hedges	(500)	(3,000)
	3,500	5,000
Other comprehensive income for the year, net of tax[g]	(14,000)	28,000

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(b) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(c) The income tax relating to each item of other comprehensive income is disclosed in the notes.
(d) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.
(e) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.
(f) The income tax relating to each item of other comprehensive income is disclosed in the notes.
(g) The income tax relating to each item of other comprehensive income is disclosed in the notes.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature)
(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[(a)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.

XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7
(illustrating the presentation of profit or loss and other comprehensive income in two statements)
(in thousands of currency units)

	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(a)]	400	(700)
Income tax relating to items that will not be reclassified[(b)]	5,834	(7,667)
	(17,500)	23,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified[(c)]	(1,167)	(1,667)
	3,500	5,000
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	107,250	93,500

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

(a) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
(b) The income tax relating to each item of other comprehensive income is disclosed in the notes.
(c) The income tax relating to each item of other comprehensive income is disclosed in the notes.

Appendix B—Proposed Basis for Conclusions

A1. The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that there was uncertainty about the requirements in paragraph 82A of IAS 1 for presenting an entity's share of the other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method. In particular, questions were raised about whether the IASB intended in its June 2011 amendments to IAS 1 to require the presentation of the share of the OCI arising from equity method investments separately by nature, or as an aggregate line item. It was observed that practice differed in that:

(a) some considered that the share of the OCI arising from equity accounted investments is different in nature from other items of the reporting entity, and should be presented as an aggregate line item;

(b) some were of the view that the share of the OCI of equity accounted investments should be presented in separate line items by nature; and

(c) others were of the view that the share of the OCI of equity accounted investments should be included within items of the same nature of the reporting entity's own OCI.

A2. The IASB noted that the requirement in the 2011 amendments to IAS 1 to classify items of OCI, including the share of OCI of associates and joint ventures accounted for using the equity method, by whether or not the items will be reclassified (recycled) to profit or loss was clear. This decision had been confirmed in June 2011 and documented in the Basis for Conclusions on IAS 1 *Presentation of Financial Statements*.

A3. The IASB did not however intend to change the scope of the requirement for classifying components of other comprehensive income by nature, which the share of OCI of associates and joint ventures accounted for using the equity method was excluded from prior to the June 2011 amendments. The IASB was persuaded that paragraph 82A allowed for diverse interpretations, and agreed that amendments should be made to clarify that the share of OCI of associates and joint ventures accounted for using the equity method should be presented as an aggregate line item. The IASB noted that this is consistent with the presentation requirement for an entity's share of the profit or loss of associates and joint ventures accounted for using the equity method.

A4. Consequently, the IASB proposes to amend IAS 1 as follows:

(a) Paragraph 82A to clarify that the share of the OCI of associates and joint ventures accounted for using the equity method shall be presented as two aggregate line items, classified between portions that might be subsequently reclassified (recycled) to profit or loss and those that would not be subsequently reclassified.

(b) The Implementation Guidance to reflect the amendments to paragraph 82A.

Appendix C—Agenda criteria assessment

C1. Our assessment of the agenda criteria[3] is as follows:

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	Yes. The presentation of the share of OCI of equity accounted investments is widespread. Such presentation requirements should be clear and not subject to diverse interpretation.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	Yes. We think that further guidance is needed to clarify how an entity shall present its share of items of OCI of equity accounted investments. We think this clarification will improve financial reporting by reducing the diversity of reporting methods for this issue that have been observed.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	Yes. We think that this clarification of how an entity shall present its share of items of OCI of equity accounted investments is readily resolved within the confines of existing IFRS.
In addition:	
Can the Interpretations Committee address this issue in an efficient manner (5.17)	Yes. This can be resolved efficiently through the annual improvements process.
Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.	Yes. As a clarification of IAS 1 we expect that it will be effective for a reasonable time.
Additional criteria for annual improvements	
In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12):	
• Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	This annual improvement corrects a minor unintended consequence due to changes in the language for OCI presentation requirements, and replaces unclear wording.
Not change an existing principle or	

[3] These criteria can be found in the IASB and IFRS Interpretations Committee Due Process Handbook.

propose a new principle	
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	This is not a fundamental issue, but rather a clarification of wording.

Appendix D—Submission

8 April 2013

Potential annual improvement:
IAS 1 Presentation of financial statements – Presentation of items of other comprehensive income arising from equity accounted investments

We suggest in this letter an issue that the IFRS Interpretations Committee might consider clarifying through an annual improvement.

The issue

The amendment to IAS 1 effective for periods beginning on or after 1 July 2012 deletes paragraph 82(f)-(i) and inserts paragraph 82A. IAS 1 now requires items of other comprehensive income (OCI) to be grouped together into those that will not be reclassified subsequently to profit or loss, and those that will be reclassified to profit or loss when specific conditions are met. IAS 1 paragraph 82A requires the following:

The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, <u>classified by nature (including share of the other comprehensive income of associates and joint ventures</u> accounted for using the equity method) and grouped into those that, in accordance with other IFRSs:

a. will not be reclassified subsequently to profit or loss; and

b. will be reclassified subsequently to profit or loss when specific conditions are met.

[Emphasis added]

We believe that this wording is ambiguous and potentially inconsistent with the principles of equity accounting.

Current practice

This amendment has not yet been applied to annual financial statements but it has been applied in some interim financial information. There is consequently limited published practice, however, three different views have emerged:

1. Report OCI from equity accounted investments in two separate lines

2. Report each item of OCI by reference to the nature of the underlying transaction, showing separately amounts arising from equity accounted investments

3. Report OCI items arising from equity accounted investments in the same line as similar items arising within the reporting entity

Appendix 1 explains these views in more detail and also provides an illustrative presentation of each view.

We suggest that paragraph 82A be revised to require the presentation set out in View 1, with consequential amendments to the Implementation Guidance. This presentation is most consistent with the principles of equity accounting and, in the absence of a specific decision to require additional disclosure, we believe that this treatment is closest to that required by the previous version of IAS 1.

We suggest that IAS 1 be amended as follows:

82A. The other comprehensive income section shall ~~present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that~~ be split into two sub-sections, reporting separately those items that, in accordance with other IFRSs:

a. will not be reclassified subsequently to profit or loss; and

b. will be reclassified subsequently to profit or loss when specific conditions are met.

82B. Within the other comprehensive income section, and split in accordance with the requirements of paragraph 82A, an entity shall present the following line items:

a. a separate line for each item of other comprehensive income in the period, classified by nature (excluding share of the other comprehensive income of associates and joint ventures accounted for using the equity method); and

b. share of the other comprehensive income of associates and joint ventures accounted for using the equity method.

Appendix 2 explains why we believe this issue should be addressed in the next annual improvements project.

APPENDIX 1 – DIFFERING VIEWS EMERGING IN PRACTICE

View 1 – Report OCI from equity accounted investments in two separate lines

The principles of equity accounting require that single line items should be reported rather than reporting each individual item of OCI. The single line item reported under the previous version of IAS 1 for the share of OCI of equity accounted investments should now be split into two lines for those items that will be recycled and those that will not. OCI arising from equity accounted investments is different in nature to that arising from transactions of the group. A two line presentation reflects the substance of the items and complies with the requirements of IAS 1 to present OCI by nature. The example below illustrates this view:

Other comprehensive income:

Items that will not be reclassified to profit or loss:

Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Income tax relating to items that will not be reclassified	(166)	(1,000)
Share of other comprehensive income (expense) of associates, net of tax, that will not be reclassified	400	(700)
	500	3,000

Items that may be reclassified subsequently to profit or loss:

Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
Share of other comprehensive income (expense) of associates, net of tax, that may be reclassified	250	(155)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

View 2 – Report each item of OCI by reference to the nature of the underlying transaction showing separately amounts arising from associates

Each item of OCI should be reported separately based on the underlying transaction with amounts arising from equity accounted investments identified separately. This view might be implied by the presentation set out in the Implementation Guidance. The example below illustrates this view:

Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Income tax relating to items that will not be reclassified	(166)	(1,000)
Share of gain (loss) on property revaluation of associates, net of tax	195	(800)
Share of remeasurements of defined benefit pension plans of associates, net of tax	205	100
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
Share of gains and losses on available-for-sale financial assets of associates, net of tax	250	(155)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

View 3 – Report OCI items arising from equity accounted investments in the same line item as similar items arising within the reporting entity

Paragraph 82A requires a single total for each class of OCI by nature, which should include amounts arising from both the reporting entity's transactions and equity accounted investments. The nature of OCI items arising from equity accounted investments is the same as similar items that arise from transactions of the group. Material amounts of OCI arising from equity accounted investments should be disclosed separately in the notes in accordance with paragraph 85. The example below illustrates this view:

Other comprehensive income:

Items that will not be reclassified to profit or loss:		
Gains on property revaluation*	1,128	2,567
Remeasurements of defined benefit pension plans*	(462)	1,433
Income tax relating to items that will not be reclassified	(166)	(1,000)
	500	3,000
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets*	(23,750)	26,512
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	4,833	(8,334)
	(14,250)	24,845
Other comprehensive income for the year, net of tax	**(13,750)**	**27,845**

* Includes tax in respect of OCI arising from equity method investments

** To the extent that amounts in respect of equity method investmentsare material, separate disclosure of these amounts should be provided by way of a note

APPENDIX 2 – REASONS FOR THE IFRS IC TO ADDRESS THIS ISSUE WITHIN THE NEXT ANNUAL IMPROVEMENTS PROJECT

Criteria	**Assessment**
The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle.	We believe that IAS 1 paragraph 82A is unclear. We also understand that the Board did not intend to require significantly more disclosure about OCI arising from equity accounted investments as a result of the amendment to IAS 1.
The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	The proposed amendment relates to a single paragraph of IAS 1 and consequential changes to the Implementation Guidance.
It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	We believe the Board will be able to agree on revised wording to clarify the guidance in a timely manner.
If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	This aspect of IAS 1 is not currently the subject of an on-going or future project.