STAFF PAPER

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Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting

Project	Conceptual Framework		
Paper topic	Profit or Loss, OCI and recycling: Additional information		
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Purpose of this paper

1. This paper contains a table (Table 1) that lists items of income or expense that IFRS currently requires or permits to be presented within other comprehensive income (OCI).

2. Can you please provide us with your responses to Questions 1 and 2? In your responses, please consider how your views would help to achieve the objective of financial reporting—ie to help users make decisions by providing useful information about:

   (a) the resources, claims against the entity, and

   (b) how efficiently and effectively the management and the governing board have discharged their responsibilities to use the entity's resources.

3. We have provided additional information to help you in your discussion:

   (a) Question 1: Table 2 lists in paragraph 5 lists some 'attributes' that some suggest could distinguish which items of income or expense should be presented in profit or loss and which items should be presented in OCI.

Information about the Capital Markets Advisory Committee (CMAC) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/CMAC/Pages/CMAC.aspx

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx

(b) Question 2: paragraph 6 sets out arguments supporting why an item of income or expense recognised in OCI should be always, sometimes or never reclassified (recycled) into profit or loss in a later period.

Questions for each group

Question 1—Profit or Loss and other comprehensive income
For the items listed in Table 1, would you present the remeasurement gain or loss in profit or loss or OCI? Why?

Question 2—Recycling
(a) For the types of remeasurement gain or loss described in Table 1 that you think should be presented in OCI, should that item be recycled (reclassified into profit or loss) in a subsequent period? Why? (b) If you think that a type of OCI item should be reclassified into profit or loss (recycled), on what basis (ie when) should the item be recycled?

Break-out sessions

4. During the break-out sessions, could each group please discuss at least the following items from Table 1:

   (a) Group 1: items 1, 2, 3 and 4

   (b) Group 2: items 1, 2, 3 and 4

   (c) Group 3: items 5, 6, 7 and 8

   (d) Group 4: items 5, 6, 7 and 8

Table 1 (Slide 4 in Agenda Paper 3)

	IFRS or proposed IFRS	Recognised asset or liability	Remeasurement	Profit or Loss or OCI? Why? (Question 1)	Recycling? How/when? (Question 2)
1	IFRS 9—2012 ED	Financial assets measured at fair value through OCI	Changes in discount rate		
2	Insurance contracts project	Insurance contracts	Changes in discount rate		
3	IFRS 9	Financial liabilities designated at fair value through profit or loss	Change in fair value due to issuer's own credit risk		

	IFRS or proposed IFRS	Recognised asset or liability	Remeasurement	Profit or Loss or OCI? Why? (Question 1)	Recycling? How/when? (Question 2)
4	IAS 16, IAS 38, IFRS 6	Property, plant & equipment, intangible assets, exploration & evaluation assets	Revaluation gain or reversals		
5	IAS 21	Net investment in foreign operations (and hedges)	Exchange differences		
6	IAS 19	Pensions—net defined benefit assets or liabilities	Remeasurement		
7	IFRS 9	Designated investments in equity instruments	Change in fair value		
8	IAS 39	Cash flow hedging instruments	Effective portion of changes in fair value		

Table 2: Distinguishing between profit or loss and OCI

5. Table 2 lists suggestions sometimes made for an attribute (or factor) to distinguish between profit or loss and OCI. It also provides the arguments on why that single attribute can or cannot be used in isolation.

Distinguishing OCI attribute	Arguments for use in isolation	Arguments against use in isolation
Unrealised Unrealised items of income or expense (ie remeasurements) are presented in OCI Recycled into profit or loss on realisation	Most remeasurements result from changes in price or estimates, which can be transitory. Realised income or expense is more certain and therefore more useful in predicting future cash flows.	Importance of realisation as an indicator of performance will depend on how the underlying asset is expected to contribute to future cash flows. Realisation may not provide useful information about financial performance, eg sale of a liquid financial instrument, receipt of cash from a derivative contract. The timing of realisation is susceptible to earnings management.
Non-recurring Non-recurring items of income or expense are presented in OCI No basis for recycling	Income and expenses that result from past transactions that are expected to recur in future years are more likely to have predictive value than those that are not expected to recur.	Difficult (and perhaps arbitrary) to determine which items of income or expense are non-recurring. Different users have different views about what items are considered to be 'recurring'. This varies across industries and even within industries.

Distinguishing OCI attribute	Arguments for use in isolation	Arguments against use in isolation
Non-operating Non-operating items of income or expense are presented in OCI No basis for recycling	To the extent they are defined by management, operating items reflect management's view of the components of the entity's financial performance that are likely to be predictive of those same components in the future.	The determination of what is non-operating will be based on management judgement and could therefore decrease comparability across entities. What is operating or non-operating would be difficult to define in a general Standard, because of the range of operating environments across reporting entities.
Measurement uncertainty Items of income and expense subject to too much measurement uncertainty are presented in OCI Possibly recycle when the measurement becomes less uncertain	Items of income or expense that result from an asset or liability with less measurement uncertainty are more likely to predict actual future cash flows. Measurements of a short-term nature are more certain and therefore more likely to reflect actual cash flows.	Difficult (and perhaps arbitrary) to determine the point when a measurement is so uncertain that it should be presented in OCI. Income or expenses arising from uncertain measurements may economically offset items arising from measurements that are certain. Changes in measurements of some items that can have significant uncertainty (eg, impaired goodwill, allowances for loan losses) are in profit or loss and few would support presenting them in OCI.
Long-term Items of income or expense that will be realised in the long term are presented in OCI Possibly recycle when the asset or liability becomes short-term	Some items of income or expense not likely to be realised in the short term are more likely to reverse or otherwise change before realisation and therefore have less predictive value.	Difficult (and perhaps arbitrary) to determine what is short-term. What is perceived as 'long-term' will vary across asset and liability classes, industries and entities.

Distinguishing OCI attribute	Arguments for use in isolation	Arguments against use in isolation
Outside management control Items of income or expense that arise as a result of events outside management's control are presented in OCI No basis for recycling	Items of income or expense that are outside management's control are not a good indicator of the entity's and its management's performance.	Difficult (and perhaps arbitrary) to determine what is under management's control. For example, would a fair value gain on a debt instrument resulting from changes in market interest rates be under management's control if it was held for trading? Management chooses what risk to be exposed to, so ultimately can control all or most risks.

Table 3: Advantages or disadvantages of recycling

6. Table 3 contains arguments sometimes given by those who state that an item of income and expense that is classified in OCI should always be recycled, or by those who think that it should never be recycled (ie recognised only once), or by those who think that recycling should be required for only some types of OCI items.

All OCI items recycled	**Some types of OCI item recycled**	**No OCI items recycled**
Protects integrity of profit or loss as the primary source of information about the return an entity has made on its economic resources because all items of income and expense would be presented in profit or loss at some point.	Recycling only when it provides relevant information to protect the integrity of profit or loss as the primary group of items that provides information about the return the entity has made on its economic resources.	A gain or loss should only be recognised once—either in profit or loss or within OCI.
Provides relevant information about a transaction or event that occurred in the period (eg realisation or settlement)	Recycling some OCI items, eg remeasurement of a defined benefit pension asset or liability, will not provide sufficiently relevant information to warrant recycling.	Recycling often provides little or no useful information about financial performance during that period.

All OCI items recycled	**Some types of OCI item recycled**	**No OCI items recycled**
Recycling adds complexity to financial reporting. However, recycling all OCI items adds less complexity than recycling only some types of OCI item.	Recycling adds complexity to financial reporting. Recycling only some types of OCI item, adds to that complexity.	No recycling avoids adding the associated complexity to financial reporting.
-	-	Reclassification adjustments do not meet the definition of income or expense