



Agenda Paper 6
Global Preparers Forum Meeting

Profit or loss, OCI and recycling

Conceptual Framework project

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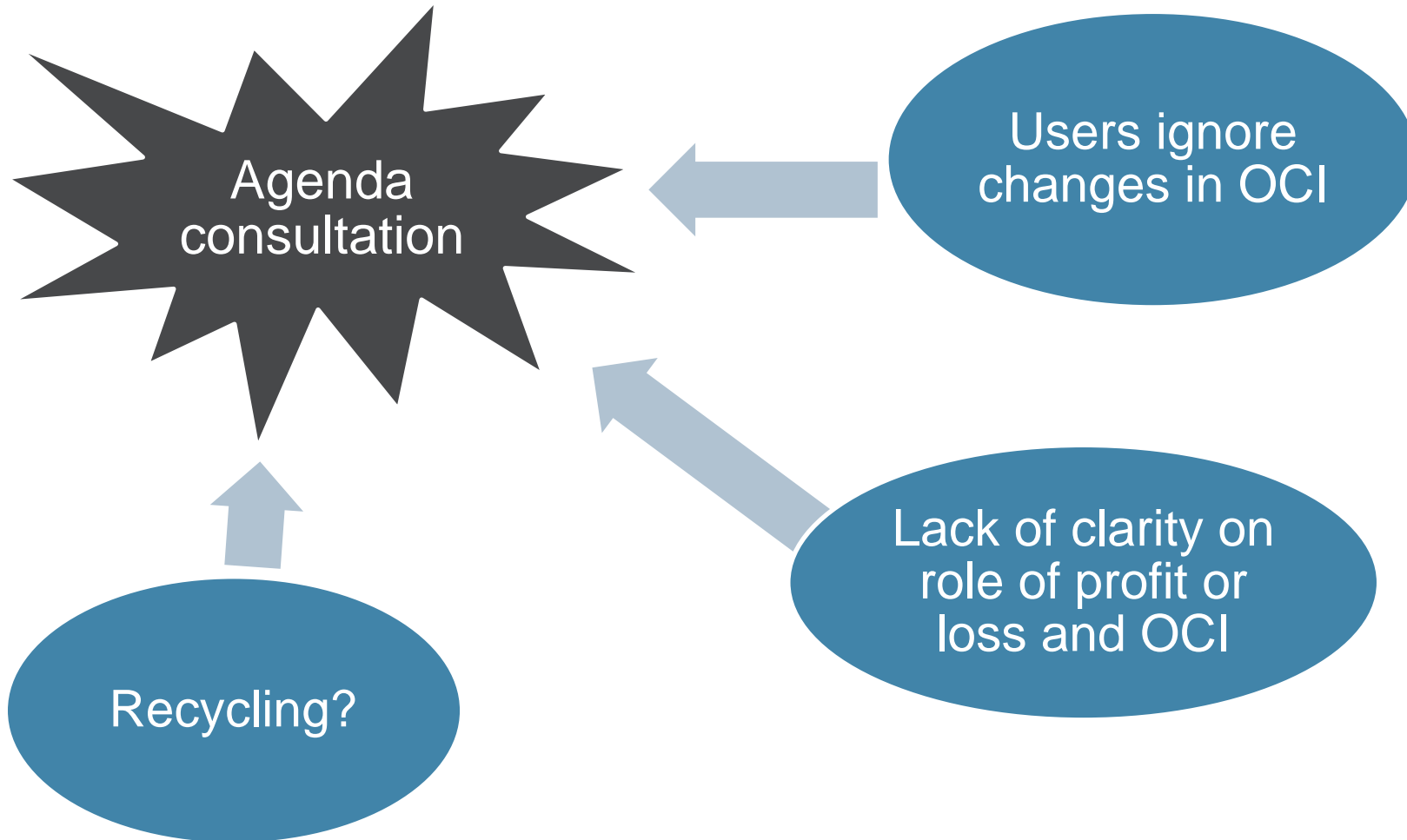
Agenda

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- Why is this issue important?
- What happens now
- IASB's preliminary views
- Questions
- Background

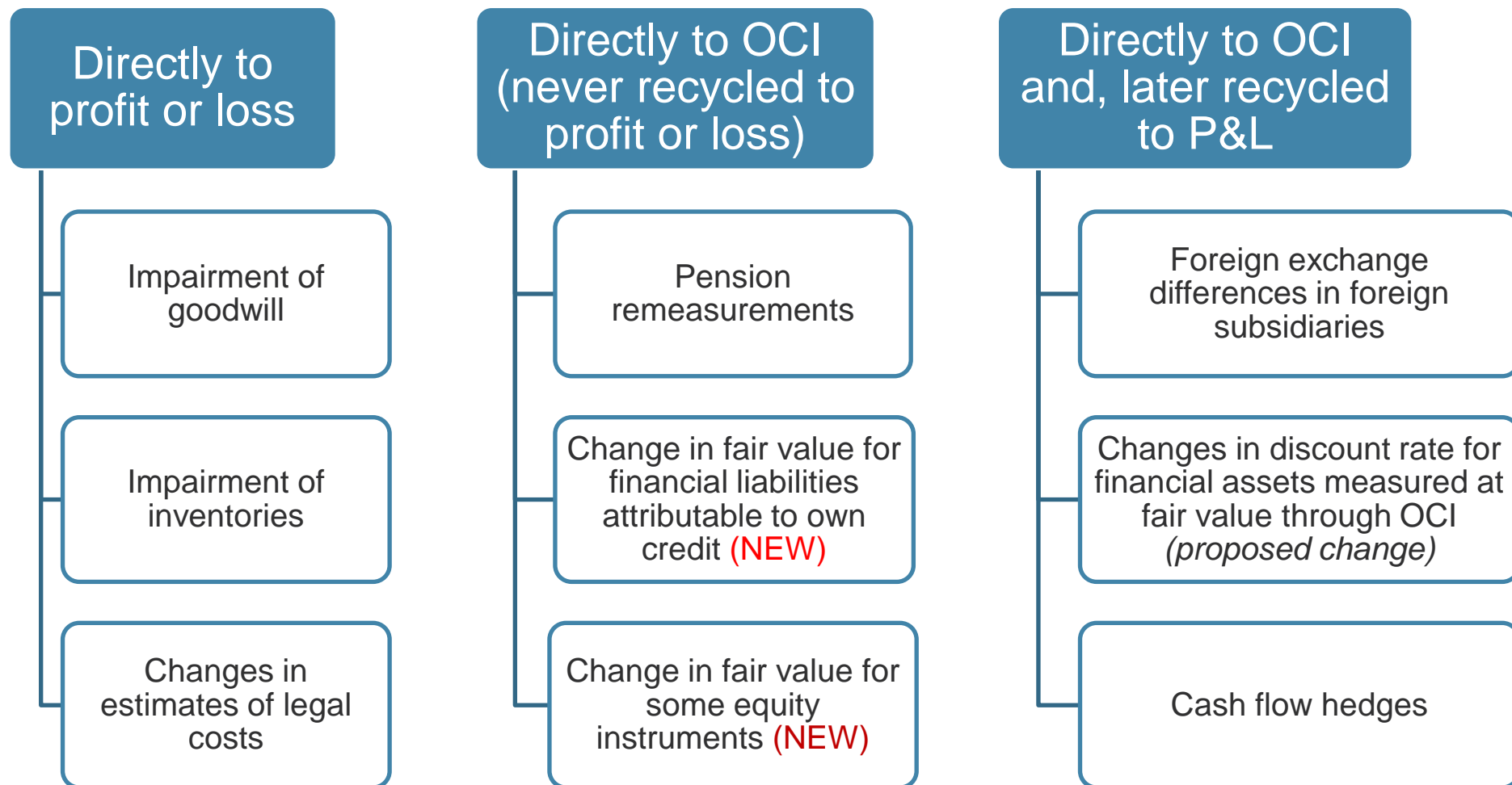
Why?

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Examples of what occurs now

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IASB's approach in the Discussion Paper

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Distinguish using one attribute?

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Profit or loss

- Realised
- Recurring (persistent)
- Operating
- Measurement certainty
- Short-term
- Under management control

OCI

- Unrealised
- Non-recurring
- Non-operating
- Measurement uncertainty
- Long-term
- Outside management control

IASB's view: No one way to distinguish P/L and OCI

IASB's preliminary views

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Narrow
approach
to OCI

Bridging*

- Two different measures are relevant
- Always recycled
- Example – FV through OCI measurement proposed in IFRS 9 ED

Mismatched

- Remeasurement results in incomplete information
- Always recycled
- Example – Cash flow hedge

Transitory*

- Long-term remeasurement, expected to reverse or change significantly, reporting in OCI enhances profit or loss as primary indicator
- Recycled if produces relevant information
- Example - pensions

Broad
approach
to OCI

* The appendix has examples

IASB's preliminary views (2)

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Profit or loss is the primary indicator of the return an entity has made on its resources in the period

- Report items outside profit or loss (in OCI) if that enhances the relevance of profit or loss

Use of OCI restricted to remeasurements

- Not all remeasurements would qualify for OCI
- When to use OCI decided by the IASB

Two approaches to defining what might be included in OCI

- Narrow approach
- Broad approach

Summary

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	Narrow Approach	Broad Approach
When can OCI be used?	Only if permitted or required by IFRS	Only if permitted or required by IFRS
Items eligible?	Mismatched remeasurements Bridging items	Mismatched remeasurements Bridging items Transitory remeasurements
Recycling	Always Driven by the category and the reason why the item went into OCI	Sometimes Bridging and mismatched always Transitory remeasurements – only if it provides relevant information
Result	Fewer items in OCI Less discretion for the IASB	More items in OCI (perhaps in line with current use) More discretion for the IASB

Alternative approach

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- No subtotal (ie profit or loss or OCI) defined in the *Conceptual Framework*
 - But can be defined in IFRSs
- No recycling
- Not well supported by the IASB

1. Which, if any, of the following categories of item would you include in OCI, and why:
 1. Bridging items?
 2. Mismatched remeasurements?
 3. Transitory remeasurements?
2. If included in OCI, would you use recycling for those items?
3. In analysing this issue, did you find it helpful to use the three categories identified by the Discussion Paper? If not, would approach would you suggest, and why?

Background

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Two different measures (bridging)

Example (IFRS 9 2012 ED):

In 20X1, financial assets are measured at amortised cost in the statement of profit or loss and fair value in the balance sheet.
In 20X4, the financial assets are sold.

Statement of profit or loss

	20X1
Interest income	A
Impairment	(B)
Profit or loss	A-B

Statement of comprehensive income

	20X1
Profit or loss	A-B
Fair value changes	C
Total comprehensive income	A-B+C

C = Differences between amortised cost (in profit or loss) and fair value (in balance sheet)

Two different measures (bridging) (2)

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Statement of profit or loss

	20X4
Interest income	A
Impairment	(B)
Gain on sale (reclassification adjustment)	D
Profit or loss	A-B+D

Statement of comprehensive income

	20X4
Profit or loss	A-B+D
Fair value changes during the year	C
Reclassification adjustment to profit or loss	(D)
Total comprehensive income	A-B+C

D = cumulative change in fair value until date of sale
= sales proceeds less amortised cost

'Transitory remeasurements'

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Example – Pensions

20X1: Estimate of employee service cost is CU10 per year

20X2: Revised estimate of employee service cost is CU12 per year
- revision due to change in inflation forecast

Relevant
information
about 20X2
service costs

Transitory
effect of
inflation is
separately
presented

Impact on comprehensive income	20X2 CU	Impact on financial position	20X2 CU
Profit or loss	12	20X2 service cost	12
OCI: Pension liability remeasurement	2	20X1 service cost	10
		20X1 'catch-up'	2
Total	14	Pension liability	24

Total service
costs = 22

Thank you

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Expressions of individual views by members of the IASB and its staff are encouraged.

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