STAFF PAPER

16-20 September 2013

IASB Meeting

Project	**Narrow focus amendments to IAS 1**
Paper topic	Presentation of items of other comprehensive income arising from equity accounted investments

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Introduction and summary of the Interpretations Committee's recommendation

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) of associates and joint ventures accounted for using the equity method. Specifically, the submitter requested that the Interpretations Committee should revise the presentation requirements in paragraph 82A of IAS 1 to clarify whether the share of items of OCI arising from equity method investments should be presented separately by nature, or in aggregate as a single line item (classified by whether or not the items will be reclassified (recycled) to profit or loss). 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. In July 2013 the Interpretations Committee discussed the staff's analysis of the issue (AP 12)[1]. In that meeting, the Interpretations Committee agreed with the staff recommendation and recommended that the IASB should amend paragraph 82A of IAS 1 to clarify that entities shall present the share of OCI of associates and joint ventures accounted for using the equity method 1) by whether those items will or will not be subsequently reclassified to profit or loss (as intended in the 2011 amendments to IAS 1); and 2) presented in aggregate as a single line

[1] http://www.ifrs.org/Meetings/Pages/InterpretationsJuly2013.aspx

item within those classifications. This was recommended as an annual improvement as it was considered to:

Replace unclear wording.

Not change an existing principle or propose a new principle.

Not be so fundamental that the IASB will have to meet several times to conclude.

3. After internal discussions it was decided that it would be more expedient to bring this amendment as part of other amendments to IAS 1 coming out of the Disclosure Initiative project. This paper asks the IASB whether it agrees with the Interpretation Committee's recommendation to amend paragraph 82A of IAS 1 to clarify its requirement and the staff's recommendation that this should be done.

4. 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—draft proposed amendment to IAS 1, draft Basis for Conclusions, and agenda criteria assessment.

Background

5. 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.

6. The submitter asserted 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 was 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 presented 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

7. These views are discussed in more detail below.

Requirements prior to the June 2011 amendments

8. 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:
>
> ...
>
> **(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and**
>
> (i) total comprehensive income.

9. 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

10. The submitter 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

11. View 1 understands 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, classified by whether those items may or may not be reclassified to profit or loss. 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*
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*

12. 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. The Interpretations Committee thinks that this view is the most aligned with the IASB’s intentions in the amendments.

13. The staff also consider that View 1 is most consistent with the Implementation Guidance for IAS 1, which presents a single line item of OCI from equity accounted investments. However, this is inconclusive because that single line item is presented by nature. In the staff recommendation we will therefore propose aligning the Implementation Guidance to clarify that disaggregation by nature is not required.

View 2—Presentation by nature in separate lines

14. View 2 understands 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*
Share of remeasurements of defined benefit pension plans of associates	*xx*
Items that may be reclassified subsequently to profit or loss:	
Available-for-sale financial assets of associates	*xx*

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

15. View 3 understands 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*
Items that may be reclassified subsequently to profit or loss:	
Available-for-sale financial assets (including amounts of associates)	*xx*

16. This view is not consistent with the existing Implementation Guidance which shows presentation of a line item of the share of OCI of associates separately from

the OCI of the reporting entity, nor is it consistent with requirements prior to the June 2011 amendments.

17. The difference between the views 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)”.

Summary of the staff analysis presented in the July IFRIC meeting

18. In July 2013 the staff presented an analysis of this issue to the Interpretations Committee. The staff recommended that View 1(that the share of items of OCI arising from equity method investments should be presented in aggregate as a single line item, classified by whether those items may or may not be reclassified to profit or loss) was the most appropriate because:

    (a) it is consistent with practice prior to the June 2011 amendments, and the IASB did not discuss changing the presentation requirements specific to an entity’s share of OCI from equity accounted investments during those deliberations;

    (b) it is the most consistent with current Implementation Guidance that presents a single line item of OCI from equity accounted investments;

    (c) to present items of OCI from equity accounted investments by nature would be inconsistent with the presentation requirements of an entity’s share of the profit or loss of equity accounted investments in IAS 1 paragraph 82, and would be inconsistent with equity method accounting overall because IAS 28 *Investments in Associates and Joint Ventures* accounts for an entity’s interest in the net assets of an investee and share in profit or loss in a single line item;

    (d) there appear to be adequate disclosure requirements already in IFRS 12, and 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 to meet the objective in IFRS 12.20.

19. The Interpretations Committee supported the staff's recommendation that the share of items of OCI arising from equity method investments should be presented in aggregate as a single line item (View 1). It was noted that this was the most appropriate in consideration to the requirements in IAS 1 prior to the June 2011 amendment, which did not address changing the disaggregation of this presentation requirement beyond whether those items would or would not be subsequently reclassified to profit and loss. It was also noted as being most consistent with equity method accounting and with the IAS 1 requirement that the share of profit and loss of such investments be presented in a single line item.

20. Some Interpretations Committee members suggested that although they supported the staff recommendation, disaggregation by nature of those items of OCI could provide valuable information. However, others noted that entities were not prohibited from providing such information, and there was a concern that requiring disaggregation of those items of OCI could set a precedent for requiring disaggregation in other areas related to equity method investments.

Outreach summary

21. Before this issue was brought before the Interpretations Committee, the staff 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)?

22. The staff 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

23. The Interpretations Committee thinks that the structure of paragraph 82A of IAS 1 should be clarified. The Interpretations Committee therefore recommends:

    (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 as a single line item, classified by whether those items may or may not be reclassified to profit or loss; and

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

24. No relief is considered necessary for first time adoption because this issue is considered to be a clarification of wording to correct a minor unintended consequence due to changes in the language for OCI presentation requirements, and is not a fundamental change. Furthermore, no additional disclosures are considered necessary given that it was observed that IFRS 12 paragraph 20 would be sufficient to trigger the disclosure of relevant information.

25. The staff are of the view that rather than including this proposed amendment within annual improvements, it would be more expedient to be included in the suite of proposed amendments to IAS 1 resulting from the Disclosure Initiative project.

26. Appendix A includes our proposed amendments to IAS and proposed Basis for Conclusions. The appendix also summarises the assessment criteria used by the Interpretations Committee to determine whether this issue was appropriate to address as an annual improvement.

Question for the IASB
Does the IASB agree with the Interpretation Committee's recommendation to amend paragraph 82A of IAS 1 and provide consequential amendments to Implementation Guidance to clarify the requirements for the presentation of items of OCI arising from equity accounted investments?

Appendix A—draft proposed amendment to IAS 1, draft Basis for Conclusions, and agenda criteria assessment

A1. The draft proposed amendment to IAS 1 is presented below. Given that this amendment is being introduced alongside other amendments to IAS 1 resulting from the Disclosure Initiative, we have excluded a paragraph about transition requirements and the effective date.

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

...

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)

Examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied
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(in thousands of currency units)

	20X7	20X6
	(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
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.

…

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	(14,500)	25,000
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TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
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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.
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Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ <u>other comprehensive income</u> 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:		
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(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.
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(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.

Proposed Basis for Conclusions

BC1. 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 items of 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 in aggregate as a single 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 in aggregate as a single 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.

BC2. 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*.

BC3. 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 agreed 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.

BC4. The IASB noted that the presentation of items of OCI of associates and joint ventures by nature could provide useful information in certain situations. However, the IASB observed that the disclosure requirements in IFRS 12 paragraph 20 would capture such situations. As a result, no additional disclosures were proposed.

BC5. Consequently, the IASB proposed 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 in aggregate as a single line item, 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.

Agenda criteria assessment

C1. In July 2013 the staff provided the Interpretations Committee with the following reasoning for why this issue should be addressed.

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 propose a new principle	
Not be so fundamental that the IASB will	This is not a fundamental issue, but rather a

have to meet several times to conclude (6.14)	clarification of wording.