STAFF PAPER

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Project	**Conceptual Framework**		
Paper topic	Profit or loss and other comprehensive income		
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Purpose of the paper

1. In March 2014, the staff presented to the IASB a summary of the feedback received on Section 8 of the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Discussion Paper)—presentation in profit or loss (P&L) and other comprehensive income (OCI). The IASB noted that most respondents:

   (a) Agreed that P&L is a primary source of information about an entity's performance and should be required as a total or subtotal in the Conceptual Framework;

   (b) Did not necessarily engage in the discussion about the categories of items that could be included in OCI but supported the use of OCI and recycling in some, or all, cases.

2. In April 2014, the IASB discussed alternative approaches to developing P&L and OCI proposals for the Exposure Draft of the *Conceptual Framework for Financial Reporting* (the Conceptual Framework ED) and directed the staff to develop an approach that would:

   (a) emphasise the role of profit or loss as the primary source of information about an entity's performance; and

   (b) provide high level guidance to the IASB on how it could use OCI.

3. Accordingly, this paper explores such an approach.

4. In this paper, the staff have considered the rationale under the current Standards for including items of income and expense in OCI and for related recycling requirements. The staff note that there is not a single conceptual basis underlying the existing requirements. Accordingly, the staff think it is not possible—nor indeed desirable—to develop for inclusion in the Conceptual Framework an approach to P&L, OCI and recycling that would precisely fit the existing requirements. The staff have not attempted to do so.

Summary of staff recommendations

5. A summary of the staff recommendations is set out in Appendix A.

Structure of the paper

6. This paper is structured as follows:

   (a) P&L as the primary source of information about an entity's performance (paragraphs 9-45);

   (b) Guidance on items that could be included in OCI (paragraphs 46-57).

7. The approach to recycling is discussed in both sections of this paper.

8. Appendix A provides an overview of the approach to P&L, OCI and recycling proposed in this paper. Appendix B provides an overview of items of income and expense included OCI under the current Standards and related recycling requirements.

P&L as the primary source of information about performance

9. The staff note that the Discussion Paper already acknowledged the role of P&L as the primary source of information about an entity's performance for the period and provided supporting discussion and analysis. However, that proposal might not have been sufficiently prominent because the Discussion Paper placed a greater emphasis on describing the types of items that could be included in OCI. Accordingly, the staff think that the IASB could emphasise the role of P&L by developing and giving greater prominence to the relevant proposals included in the Discussion Paper.

10. In particular, the IASB could:

    (a) Confirm the proposal to require P&L as a total or subtotal (paragraphs 11-13);

    (b) Re-characterise the proposed principles for including items of income and expense in P&L to increase the prominence of those proposals (paragraphs 14-26);

    (c) Clearly state the objective of P&L of reflecting the performance for the period and assisting in providing inputs that are helpful in predicting future cash flows (paragraphs 27-33);

    (d) Discuss the types of items of income and expense that could *only* be included in P&L (paragraphs 34-44).

P&L as a total or subtotal

11. The Discussion Paper set out the IASB's preliminary view that P&L should be required as a total or subtotal. That proposal reflected the IASB's view of P&L as an important indicator of performance that is deeply ingrained in the economy and business and is used by investors' in all sectors in their analysis either as a primary indicator of performance or as a starting point in their analysis.

12. The proposal to require P&L as a total or subtotal was supported by most respondents. A few respondents did not support P&L as a total or subtotal. However, those respondents typically advocated a single statement of performance. As discussed in April 2014 Agenda Paper 10D, the IASB has explored a single statement of performance in the past and decided not to pursue that approach. The IASB has no current plans to reconsider those decisions.

13. Accordingly, the staff recommend that the IASB confirms the proposal to require P&L as a total or subtotal in the upcoming Conceptual Framework ED. In the staff's view, that in itself would preserve the prominence of P&L as an important indicator of performance.

Re-characterising the principles for including items in P&L

14. The Discussion Paper proposed the following principles for including items of income and expense in P&L:

    (a) Principle 1: items of income and expense presented in P&L provide the primary source of information about the return an entity has made on its economic resources in a period.

    (b) Principle 2: all items of income and expense should be recognised in P&L unless recognising an item in OCI enhances the relevance of P&L in that period.

    (c) Principle 3: an item recognised in OCI must subsequently be reclassified (recycled) to P&L when (under the narrow approach to OCI)—or when, and only when (under the broad approach to OCI)—the reclassification results in relevant information.

15. The staff think these principles are valid and already acknowledge the role of P&L as the primary source of information about an entity's performance for the period and provide guidance on including items of income and expense in P&L. However, these principles might not have come across very clearly. This is partly because they were buried in the supporting discussion and analysis and partly because the Discussion Paper placed a greater emphasis on describing the types of items that could be included in OCI. Accordingly, the staff believe that the mere relocation of the supporting discussion and analysis and alternative views to the Basis for Conclusions would in itself make these proposals more prominent. In addition, the IASB could further increase their prominence by transforming them into rebuttable presumptions for including items of income and expense in P&L (see paragraphs 19-26) and describing P&L (see paragraphs 16-18).

Describing P&L

16. As discussed in April 2014 Agenda Paper 10D, many respondents to the Discussion Paper asked the IASB to define or better describe P&L—or/and define financial performance—but few provided suggestions. That agenda paper also provided an overview of the IASB's work on reporting performance since 2001 and argued that a

comprehensive consideration of performance reporting—which could entail defining P&L—would likely take time and would not necessarily succeed. Consistently with that analysis and the direction provided by the IASB at the April2014 meeting, the staff have not attempted to develop a definition of P&L.

17. However, the staff think that the IASB could describe P&L in the Conceptual Framework as the primary source of information about an entity's performance for the period, consistent with Principle 1 included in the Discussion Paper. The staff acknowledge that describing P&L in that way would be unlikely to satisfy those respondents who asked for a definition of P&L. However, as discussed above, the staff are not convinced that a robust definition of P&L is possible. Moreover, describing P&L as proposed above would be helpful. This is because it would:

    (a) be reflective of the feedback from most respondents who agreed with the role of P&L as the primary source of information about an entity's performance, even if they favoured a broad use of OCI or flexibility in the use of OCI; and

    (b) provide high level guidance for the IASB to use in setting Standards.

18. The staff note that describing P&L as the primary source of the entity's performance would also be consistent with the objectives of the general purpose financial reporting and with how the information included in P&L is used in practice. Accordingly, the staff recommend describing P&L in that way in the Conceptual Framework ED.

Rebuttable presumptions

19. If P&L is the primary source of information about an entity's performance, it arguably follows that excluding items of income and expense from P&L without compelling reasons could undermine its usefulness (that is, P&L should be as all-inclusive as possible).

20. Accordingly, the staff think that Principles 2 and 3 included in the Discussion Paper could be re-enforced in the Conceptual Framework ED as follows:

    (a) Principle 2 could be articulated as a rebuttable presumption that an item of income and expense must be included in P&L. The IASB could only require, or permit, an item of income and expense—or a component of that item—to be included in OCI in limited circumstances when the IASB concludes that doing so would enhance the relevance of P&L as the primary source of information about an entity's performance for the period.

(b) Principle 3 could be articulated as a rebuttable presumption that an item of income and expense included in OCI must be recycled to P&L. Recycling occurs when doing so would enhance the relevance of P&L as the source of information about an entity's performance for the period. The IASB could only consider prohibiting recycling in limited circumstances when the IASB concludes that recycling would undermine the relevance of P&L for the period. That could be the case, for example, when there is no clear basis for recycling.

21. These rebuttable presumptions would provide guidance to the IASB. Requirements for entities are provided by IAS 1 *Presentation of Financial Statements* which requires an entity to include all items of income and expense in P&L unless a Standard requires or permits otherwise—and the staff do not propose to change that.

22. The staff think that these rebuttable presumptions would be consistent with—and support—describing P&L as the primary source of information about an entity's performance for the period and would help to emphasise the role of P&L as that primary source. Besides, the rebuttable presumption on recycling would also be reflective of the feedback received on the Discussion Paper:

(a) most respondents supported recycling in some, or all cases; and

(b) some respondents specifically suggested that recycling should be established as a principle, or a presumption, in the Conceptual Framework.

23. Both rebuttable presumptions proposed above follow from describing P&L as the primary source of information about an entity's performance and re-enforce describing P&L in that way. They do not take into consideration the types of items of income and expense that could be included in OCI.

24. The staff note that the rebuttable presumption on recycling is different from the Discussion Paper, where the approach to recycling depended upon the approach to defining what could be included in OCI and vice versa. However, the staff note that those proposals were not necessarily supported by respondents. The staff also note

that the IASB directed the staff to develop high level guidance on when the IASB could use OCI—rather than develop the specific proposals on the categories of items that could be included in OCI under the Discussion Paper. Accordingly, the staff do not think that the IASB is constrained by the approaches included in the Discussion Paper. However, the staff note that there is still an interaction between types of items included in OCI and recycling—this is because whether the presumption could be rebutted, and when, would depend on specific items included in OCI.

25. The staff acknowledge that the rebuttable presumption on recycling could be viewed as inconsistent with the recycling requirements in several existing Standards which prohibit recycling. However, as discussed in paragraph 4, the staff do not think it is feasible or desirable to develop a conceptual approach to recycling which is entirely consistent with the existing Standards.

26. Accordingly, the staff recommend that the IASB include in the Conceptual Framework the rebuttable presumptions discussed in paragraph 20.

The objective of P&L of reflecting the performance for the period and assisting in predicting cash flows

27. The Discussion Paper suggested a dual objective of P&L as the primary source of information about an entity’s performance. That objective includes both:

    (a) Depicting the return that an entity has made on its economic resources during the period, ie the backward-looking perspective; and

    (b) Providing information that is helpful in assessing the amount, timing and uncertainty of (the prospects for) future net cash inflows, ie the forward-looking perspective.

28. Some respondents to the Discussion Paper argued that the IASB should decide whether the objective of P&L is just to provide information about the transactions and events that have taken place during the period or just to provide information helpful in assessing future returns. They argued that a single objective could in its turn help in distinguishing items of income and expense which should be included in P&L from items which could be included in OCI. For example, a focus on transactions and events that have happened during the period could support a distinction that is based

on realisation, whereas a focus on assessing future cash flows could support a distinction that is based on the predictive value of items of income and expense.

29. The staff do not agree that a single objective is appropriate. Furthermore, the staff note that whereas the objective for P&L could be *helpful* in identifying particular types of items of income and expense that should be included in P&L—and the Discussion Paper proposed doing that, as discussed in paragraphs 34-44—it cannot be *relied upon* as a distinguishing factor.

30. If the IASB were to establish a single objective of P&L and use that objective to distinguish the types of items that should be included in P&L, that could lead to counterintuitive results and would not necessarily result in useful information. For example, if the IASB were to focus just on the predictive value of items of income and expense, that could lead to the conclusion that gains and losses on sales of property, plant and equipment should be excluded from P&L because arguably they have less predictive value than items such as revenue and costs of sales. Likewise, if the IASB were to focus just on what happened during the period without the regard to the predictive value of items of income and expense, that could lead to inclusion in P&L of items of income and expense that could reverse in the future without contributing to the entity's cash flows. For example, that could lead to the conclusion that unrealised fair value gains and losses on debt investments measured at fair value through other comprehensive income (FVOCI) under IFRS 9 *Financial Instruments* should be included in P&L even though those fair value gains and losses may ultimately reverse if the entity realises the value of those assets through the collection of contractual cash flows.

31. Accordingly, the staff think that the dual objective of P&L is appropriate. The staff note that the dual objective is consistent with paragraph OB18 of the existing Conceptual Framework. This states that information about an entity's performance during the period is useful in assessing the entity's past and future ability to generate cash flows. It is also consistent with the qualitative characteristic of relevance, which refers to both confirmatory and predictive value of decision-useful financial information. Finally, the staff note that some respondents supported the dual backwards- and forward-looking objective of P&L.

32. Accordingly, the staff think that the IASB should confirm the dual backward- and forward-looking objective of P&L in the Conceptual Framework ED.

33. The staff note that in May 2014 the IASB tentatively decided to amend Chapter 1 of the *Conceptual Framework* to increase the prominence of stewardship within the overall objective of financial reporting. The staff think that decision is consistent with emphasising that one part of the objective of P&L is to depict the return made during the period. That backward-looking perspective provides inputs to help in assessing management's stewardship of the entity's resources.

Items of income and expense that could not be reported outside P&L

34. As stated in paragraph 29, building on the objectives of P&L, the Discussion Paper identified particular items of income and expense that the Discussion Paper suggested should never be reported outside profit or loss. The staff think that such guidance is consistent with the idea of the primacy of profit or loss and therefore should be retained in the Conceptual Framework ED. The staff also think that the IASB could expand the discussion about items that could not be reported outside P&L. Specifically, the IASB could require the following items of income and expense, if recognised, to always be included in P&L:

    (a) Gains and losses arising on initial recognition of an asset or a liability (paragraphs 35-36);

    (b) Income and expenses, including gains and losses, arising on assets and liabilities carried at cost-based measures (paragraphs 37-40);

    (c) Particular types of income and expenses arising on assets and liabilities carried at current values (paragraphs 41-43);

    (d) Dividends received (paragraph 44).

Initial recognition

35. The Discussion Paper proposed that only *changes* in measurement could be included in OCI rather than P&L. In other words, gains and losses recognised on initial recognition of an asset or a liability could only be included in P&L. This is consistent with the objective of P&L to provide information about the return that an entity has

made on its economic resources during the period—ie the transaction that results in initial recognition of an asset or a liability and gives rise to a recognised gain or a loss has happened and has contributed to the return for the period.

36. Accordingly, the staff believe it is appropriate for gains and losses recognised on initial recognition of an asset or a liability to be included in P&L and recommend that the IASB confirm that proposal in the Conceptual Framework ED.

Cost-based measurements

37. The Discussion Paper took the position that income and expenses arising on assets and liabilities carried at cost should be included in P&L. That would include transaction-driven income and expenses, for example, revenue or a loss on sale, as well as changes in cost-based measurements.

38. Specifically, the Discussion Paper proposed that the following items of income and expense would, if they arise on assets and liabilities carried at cost-based measurements, be reported in P&L:

    (a) Depreciation or amortisation;

    (b) Accrual of interest, accretion of a discount or amortisation of a premium; or

    (c) Impairment of assets, or increases in the carrying amount of liabilities that have become onerous.

39. This is because these items represent consumption or impairment of assets, or fulfilment of liabilities, which under the Discussion Paper were considered to be components of performance in the period in which they occurred. Accordingly, including these items in P&L is consistent with describing P&L as the primary source of information about entity's performance. It is also consistent with the objectives of P&L of providing information about the return for the period and assisting in predicting future cash flows.

40. Accordingly, the staff recommend that the IASB confirms in the Conceptual Framework ED that items of income and expense that arise on assets and liabilities carried at cost-based measurements should be included in P&L.

Particular changes in current values

41. The staff think that the same logic would apply to the items listed in paragraph 38 if they arise on assets and liabilities carried at current measures. That is, they would equally represent consumption or impairment of assets or fulfilment of liabilities that reflect performance in the period and would be equally helpful in assessing future cash flows. Consider for example:

    (a) Depreciation of a depreciable item of property, plant and equipment carried at cost vs depreciation of a depreciable item of property plant and equipment carried at a revalued amount;

    (b) Accrual of interest on a financial asset measured at amortised cost vs accrual of interest on a financial asset measured at fair value; or

    (c) Impairment of a financial asset measured at amortised cost vs impairment of a financial asset measured at fair value.

42. The staff believe that such changes in values of assets and liabilities are equally relevant to the objectives of P&L, regardless of whether the underlying item is carried at a cost-based measure or at a current value. The staff acknowledge that there is an interaction between such changes in values on assets and liabilities measured at current value and the remeasurement gain or loss—eg accrual of interest on a financial instrument measured at fair value would have an impact on the instrument's fair value and on the resulting remeasurement gain or loss. However, the staff do not think that such an interaction changes the analysis. This is because different components of remeasurement have different predictive value and play different roles in reflecting performance for the period.

43. Accordingly, the staff recommend that the IASB extends the approach to items listed in paragraph 38 proposed in the Discussion Paper for assets and liabilities carried at cost-based measures—that is, including such items of income and expense in P&L—to assets and liabilities carried at current values[1].

[1] The staff are not proposing that the IASB should specify how such items should be presented in P&L, for example, whether interest on financial assets measured at fair value though P&L should be presented separately from fair value gains.

Dividends received

44. Consistent with the preceding analysis, the staff think it would not be appropriate to report dividends received outside profit or loss. This is because dividends arise from a transaction and reflect the return in the period and information about them is likely to be helpful in assessing future cash flows. (However, if dividends represent a return *of* investment rather than a return *on* investment, they would be reported neither in profit or loss nor in OCI.)

Staff recommendation

45. To emphasise the role of P&L as the primary source of information about an entity's performance, the staff recommend that the IASB:

    (a) Confirms the proposal that P&L should be required as a total or subtotal;

    (b) Describes P&L as the primary source of information about an entity's performance for the period;

    (c) Includes in the Conceptual Framework the rebuttable presumptions discussed in paragraph 20, ie that the IASB must, unless doing that would undermine the relevance of P&L, require:

        (i) items of income and expense to be reported in P&L and

        (ii) items of income and expense included in OCI to be recycled to P&L;

    (d) Discusses the dual objective of P&L of depicting the return that an entity has made on its economic resources during the period and providing information that is helpful in assessing prospects for future cash flows;

    (e) Sets out items of income and expense that could not be reported outside P&L, including:

        (i) Gains and losses recognised on initial recognition of an asset or a liability;

        (ii) Income and expenses arising on assets and liabilities carried at cost-based measures;

(iii) Particular types of income and expenses arising on assets and liabilities carried at current values, specifically:

1. Depreciation or amortisation;
2. Accrual of interest, accretion of a discount or amortisation of a premium; or
3. Impairment of assets, or increases in the carrying amount of liabilities that have become onerous;

(iv) Dividends received.

Questions for the IASB
Does the IASB agree with the staff recommendation in paragraph 45(a)?
Does the IASB agree with the staff recommendation in paragraph 45(b)?
Does the IASB agree with the staff recommendation in paragraph 45(c)?
Does the IASB agree with the staff recommendation in paragraph 45(d)?
Does the IASB agree with the staff recommendation in paragraph 45(e)?

Guidance on items that could be included in OCI

Discussion Paper

46. The Discussion Paper identified three categories of items that could be included in OCI:

(a) Bridging items;

(b) Mismatched remeasurements; and

(c) Transitory remeasurements.

47. Considering the feedback received on the Discussion Paper and the direction provided by the IASB in April 2014, the staff do not propose to develop these specific categories—and the related recycling requirements—for the Conceptual Framework ED. However, the staff think that the underlying rationale included in the Discussion Paper is valid and could be developed in the Conceptual Framework ED.

Attributes of income and expense

48. In developing the Discussion Paper, the IASB considered whether commonly suggested attributes of items of income and expense—such as realisation, persistence, operating nature, measurement uncertainty, long-term nature of underlying assets and liabilities and management control—could be used to differentiate items of income and expense that should be included in P&L from those that could be included in OCI. The IASB concluded that no single attribute could operationally and meaningfully distinguish items that should be included in P&L from those that should be included in OCI. In addition, the IASB noted that many of the attributes are or can be interrelated.

49. Some of the respondents to the Discussion Paper argued that a single attribute—or a combination of attributes—could be used to distinguish items that should be included in P&L and those that should be included in OCI. However, in the staff view, they did not propose any new arguments that the IASB did not consider when developing the Discussion Paper. The staff also note that the conceptual and operational challenges associated with the use of attributes would not only remain but would even be exacerbated if a combination of attributes were to be used.

50. Accordingly, the staff do not propose to pursue such an approach.

Dual measurement

51. Consistently with the rationale for the proposals in the Discussion Paper, the staff note all instances of including items of income and expense in OCI in the existing Standards relate to changes in value of assets and liabilities carried at current values. In some instances the entire recognised change in value is included in OCI (eg equity investments designated at FVOCI under IFRS 9); in others only a component of a change in value (eg financial assets measured at FVOCI under IFRS 9). The staff therefore considered the types of remeasurements that are currently included in OCI with the objective to identify whether there is a common pattern (or patterns) that could be used to provide guidance to the IASB.

52. The staff note that most of the IASB's recent decisions on the use of OCI relate to a situation where one measurement basis was considered appropriate for the statement

of financial position and a different measurement basis was considered appropriate for P&L (a dual measurement approach).[2] For example:

(a) Under IFRS 9, debt instruments classified as FVOCI are measured at fair value on the statement of financial position and are measured at amortised cost to determine amounts presented in P&L. This is because these assets are managed within the ‘hold and sell’ business model. Accordingly, amortised cost information in P&L reflects the return made through collection of contractual cash flows, and OCI reflects changes in fair value attributable to changes in market prices. The amount accumulated in OCI shows the gain or loss that would be made if the asset is sold at the market price that exists at the end of the period. .

(b) Under the *Insurance Contracts* project, changes in the current value of insurance contracts liabilities are split between P&L and OCI. Similar to financial assets measured at FVOCI under IFRS 9, P&L reflects amortised cost information and OCI reflects changes in current value attributable to the changes in the discount rates. The IASB concluded that such a disaggregation of changes in the value of insurance contracts liability better reflects the underwriting performance of an insurer.

(c) Under IFRS 9, for a financial liability designated at fair value through P&L (FVPL) that part of the change in fair value attributable to changes in the issuer’s own credit risk is included in OCI, and the remaining fair value change is reported in P&L (ie changes in fair value other than those attributable to changes in own credit risk). The IASB concluded that reporting ‘own credit’ gains and losses in P&L does not result in useful information because entities will generally not realise those changes unless the liability is held for trading.

53. The staff note that the non-recycling of own credit gains and losses is inconsistent with the presumption that items of income and expense included in OCI should be recycled—however, under the approach proposed in this paper, that presumption can be rebutted. In addition, as discussed above, the staff do not think it is feasible or

[2] The choice of measurement basis is discussed in Section 6 of the Discussion Paper. The staff plan to bring to the IASB a paper that addresses measurement in July 2014.

desirable for the IASB to develop an approach that would fit precisely the existing use of OCI and recycling. The staff also note that when the IASB developed the own credit requirements, the IASB noted the absence of overriding conceptual guidance on recycling and, in the absence of such guidance, made a decision consistent with the existing requirements in IFRS 9 (ie non-recycling of gains and losses on equity investments designated at FVOCI).

54. A question arises whether other of the existing instances of including items of income and expense in OCI could be described as a dual measurement—or indeed could be grouped under a different approach.

55. It could be argued that equity investments designated at FVOCI under IFRS 9 could be described as a dual measurement. The staff note that such a designation was targeted at equity investments held by entities for non-contractual benefits, such as establishing or enhancing business relationships, rather than for changes in value and therefore changes in value are included in OCI rather than P&L. The staff also note that dividends on such investments are reported in P&L (unless they represent a return of investment), consistently with the logic in paragraph 44 of this paper. However, the question then arises what is the measurement basis used to determine the amounts reported in P&L for such investments. In the staff view, in order to argue that cost measurement is used for P&L, such investments would need to be tested for impairment and impairment losses would need to be reported in P&L. Accordingly, the staff think it would be challenging to describe the measurement basis used for such investments in P&L, ie it would not represent either a cost-based or a current-value based measure.

56. Likewise, the staff do not think that other existing uses of OCI could be described as dual measurements. However, the staff note the following with respect to the remaining instances of the use OCI in existing Standards:

(a) The IASB has a foreign currency translation project on its research agenda. That research project could investigate, among other things, the use of OCI in foreign currency translation.

(b) Some argue that revaluations of property, plant and equipment and intangible assets are capital maintenance adjustments, rather than items of income and expense. Indeed, the staff note that prior to introduction of OCI revaluation gains and losses were reported directly in equity. Accordingly, any future review of capital maintenance concepts currently in the *Conceptual Framework* might have implications for those revaluations. The staff note that in April 2014, the IASB tentatively decided not to discuss capital maintenance as part of this project.

(c) Recognising in OCI gains and losses on cash flow hedges and on hedges of net investment follows its own unique logic in how and why it enhances the relevance of P&L—ie gains and losses are not recycled until the hedged item affects P&L. That is, because the item of income and expenses arises on a linked set of transactions, including it in P&L in isolation from the related transactions would result in an incomplete and misleading picture of the entity's performance. Accordingly, even though accounting for cash flow hedges and hedges of net investment cannot be described as a dual measurement, it is aligned with the overriding rebuttable presumption discussed in paragraph 20(a)—ie that items of income and expense must be included in P&L unless there are strong arguments that reporting an item in OCI would enhance the relevance of P&L for the period. In addition, recycling those gains and losses is consistent with the rebuttable presumption discussed in paragraph 20(b)—ie items of income and expense included in OCI should be recycled when the hedged items affect P&L because recycling at that point results in a more complete picture of performance.

(d) Recognising in OCI actuarial gains and losses on net defined benefit assets and liabilities could not be described as a dual measurement. This is because it would be challenging to describe the measurement basis used to determine amounts reported in P&L. However, arguably they are consistent with the rebuttable presumption in paragraph 20(a)—although the staff are aware of diverse views in that regard. Finally, one could argue that the lack for recycling for the actuarial gains and losses results from a valid rebuttal of the rebuttable presumption in paragraph 20(b) because it is difficult to establish an appropriate basis for recycling.

57. In the light of the above discussion, the staff recommend to provide guidance on the use of OCI by extending the description of the rebuttable presumption discussed in paragraph 20(a) to refer to dual measurements. That is, the IASB could require, or permit, an item of income and expense—or a component of that item—to be reported in OCI only in limited circumstances when the IASB concludes that doing so would enhance the relevance of P&L as the primary source of information about an entity's performance for the period. Such circumstances would include (but would not be limited to) cases when the IASB concludes that one measurement basis is appropriate for an asset or a liability in the statement of financial position and another measurement basis is appropriate for P&L. In such cases, the resulting difference would be reported in OCI.

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 57?

Appendix A—Proposed approach to P&L, OCI and recycling

A1. P&L is a primary source of information about an entity's performance for the period.

A2. The objective of P&L is to depict the return that an entity has made on its economic resources during the period and to provide information that is helpful in assessing prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

A3. There is a rebuttable presumption that an item of income and expense must be included in P&L. The IASB could require, or permit, an item of income and expense—or a component of that item—to be included in OCI only in limited circumstances, when the IASB concludes that doing so would enhance the relevance of P&L as the source of information about an entity's performance for the period. Such circumstances could arise when the IASB concludes that one measurement basis is appropriate for an asset or a liability in the statement of financial position and a different measurement basis is appropriate for P&L. In such cases, the resulting difference would be included in OCI. The IASB could also conclude that an item of income and expense should be included in OCI in other circumstances.

A4. The following items of income and expense could only be included in P&L:

(a) gains and losses recognised on initial recognition of an asset or a liability;

(b) income and expenses arising on assets and liabilities carried at cost-based measures;

(c) the following types of income and expenses arising on assets and liabilities carried at current values:

i. depreciation or amortisation;

ii. accrual of interest, accretion of a discount or amortisation of a premium; and

iii. impairment of assets, or increases in the carrying amount of liabilities that have become onerous; and

(d) dividends received.

A5. There is a rebuttable presumption that an item of income and expense included in OCI must be recycled to P&L. Recycling takes place when doing so enhances the relevance of P&L as the source of information about an entity's performance for the period. The IASB could consider prohibiting recycling only in limited circumstances when the IASB concludes that recycling would undermine the relevance of P&L for the period. That could be the case, for example, when there is no clear basis for recycling.

Appendix B—Items included in OCI and recycling under the existing Standards

Item	Description	The basis for including in OCI	Recycling	The basis for recycling
IFRS 9—equity investments designated at FVOCI	Dividends in P&L (unless recovery of cost of investment), remeasurements in OCI.	Not indicative of performance if, for example, held for non-contractual benefits (ie strategic investments) instead of primarily for increases in value. Users differentiate equities held for other purposes than investment returns. However, it is difficult, if not impossible, to describe 'strategic investment'. Dividends in P&L to be consistent with revenue recognition and to avoid accounting mismatch (ie such equities could be funded by debt for which interest expense is recorded in P&L). [paragraphs BC5.21 –BC5.25 of IFRS 9]	No recycling. All gains and losses (ie unrealised and realised) included in OCI but can be transferred within equity. No maturity date hence the amounts recognised in OCI will not necessarily reverse over time.	Gains and losses should only be recognised once. Recycling would result in a category similar to AFS for equities in IAS 39 and would require impairment model. [paragraph BC5.25(b) of IFRS 9]
IFRS 9—debt investments measured at FVOCI	Interest income and impairment in P&L, other remeasurements in OCI.	Business model objective both to collect contractual cash flows and to sell. P&L provides amortised cost (held-to-collect), statement of financial position provides fair value (held-to-sell) and the difference is included in OCI.	Recycle if and when realised. If held to maturity, amounts recognised in OCI will reverse to zero.	To achieve amortised cost profile in P&L.

Item	Description	The basis for including in OCI	Recycling	The basis for recycling
IFRS 9—financial liabilities designated at FVPL	Effects of changes in own credit risk in OCI (unless create or enlarge an accounting mismatch), other changes in fair value in P&L.	Long-standing and wide-spread concern that including those gains and losses in P&L does not provide useful information. An entity will not generally realise effects of changes in own credit unless the liability is held for trading. [paragraphs BC5.35–BC5.51 of IFRS 9]	If held to maturity, amounts recognised in OCI will reverse to zero. If extinguished before maturity, amounts recognised in OCI are not recycled. However, mounts in OCI can be transferred within equity.	Consistent with FVOCI equities. For many liabilities, amounts recognised in OCI will reverse to zero. Lack of objective for the use of OCI and recycling. [paragraphs BC5.52–BC5.57 of IFRS 9]
Insurance contracts liabilities under the Insurance Contracts project	Accounting policy choice to include changes in discount rate in OCI or P&L, other changes in current value in P&L as and when it relates to the services provided.	Segregate the effects of changes in the discount rate expected to unwind over time from other gains and losses, so users could better assess the underwriting and investing performance of an entity. Achieved by approximating an amortised cost view in P&L, current view of performance in total comprehensive income and the difference between the effects of discounting at a current rate at the end of the period and the amortised cost view of the time value of money in OCI. [paragraph BC143 of the Exposure Draft *Insurance Contracts*]	Amounts recognised in OCI are expected to reverse over time until the contract is derecognised due to a claim or lapse. Recycling occurs if the liability is transferred to a counterparty or has a substantial modification.	For many liabilities, amounts recognised in OCI will reverse to zero. Recycling consistent with FVOCI for financial assets.

Item	Description	The basis for including in OCI	Recycling	The basis for recycling
IAS 21—translation into presentation currency	Exchange differences that arise due to translation of the opening and closing balance sheet and P&L at different rates.	Changes in exchange rates have little or no direct effect on the present and future cash flows from operations. [paragraph 41 of IAS 21]	Recycle if and when realised (through disposal). No maturity so amounts recognised in OCI will not necessarily reverse to zero.	–
IFRS 9—cash flow hedges and hedges of net investment	Effective portion of the hedge is recognised in OCI, hedge ineffectiveness is recognised in P&L.	Retained IAS 39 hedge accounting mechanics because they are well established and understood by most interested parties. [paragraphs BC6.33 – BC6.35 of IFRS 9]	Recycled when hedged cash flows affect profit or loss or on disposal of a foreign operation.	Retained IAS 39 hedge accounting mechanics because they are well established and understood by most interested parties. [paragrpahs BC6.33–BC6.35 of IFRS 9]
IAS 16 and IAS 38—revaluation of PPE and intangible assets for which active market exists	Impairment, depreciation/amortisation based on revalued amount and gain/loss on derecognition in P&L, remeasurements in OCI.	–	Not recycled but can be transferred within equity (on derecognition or over time).	–
IAS 19—remeasurements of defined benefit asset /liability	Service cost and net interest on the net defined benefit liability in P&L, remeasurements in OCI (actuarial gains/losses, return on plan assets and effects of asset ceiling other than included in interest).	Disaggregating the components with different predictive values results in most useful information. Noted the lack of a single conceptual basis for including items in OCI. [paragraphs BC88–BC91 of IAS 19]	No recycling but can be transferred within equity.	Noted that IAS 19 historically prohibited recycling and decided to carry forward that requirement given there was no conceptual rationale to change it, and that it would be difficult to identify a suitable basis for the amount and timing of recycling. [paragraph BC99 of IAS 19]