

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 and other comprehensive income		
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Purpose of the paper

1. This paper provides the basis for the discussion about profit or loss and other comprehensive income (OCI) at this joint Capital Markets Advisory (CMAC) and Global Preparers Forum (GPF) meeting. Specifically, this paper:
 - (a) provides an overview of the relevant background information (paragraphs 4–11);
 - (b) outlines the approach to profit or loss and OCI proposed by the IASB staff to be included in the *Conceptual Framework* Exposure Draft (paragraphs 12–16); and
 - (c) sets out the discussion questions for the members of the GPF/CMAC.
2. The background information is provided for the context and the ease of reference. We do not intend to discuss it at this meeting. Rather, we would like to focus the discussion on the staff's proposed approach.
3. The IASB is due to discuss the staff proposals outlined in this paper on 19 June. The staff will provide an oral update on that discussion at this joint GPF/CMAC meeting.

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>

Background

Proposals in the Conceptual Framework Discussion Paper

4. The IASB published the *Conceptual Framework* Discussion Paper in July 2013. The IASB acknowledged that the statement of profit or loss—or the profit or loss section in a single statement of comprehensive income (hereinafter the statement of profit or loss)—is the primary source of information about an entity’s performance for the period.¹ Accordingly, the IASB proposed that the *Conceptual Framework* should require profit or loss as a total or subtotal.
5. The IASB proposed to distinguish between those items of income and expense included in profit or loss and those included in OCI by describing the types of items that could be included in OCI. The IASB identified three categories of items that could be included in OCI and the related approaches to recycling:

- (a) Bridging items—arise when an item is measured differently on the balance sheet and in the statement of profit or loss. They are recycled when recycling enhances the relevance of profit or loss.

Eg debt investments at fair value through OCI under the upcoming completed version of IFRS 9 *Financial Instruments*

- (b) Mismatched remeasurements—arise from remeasurement of an item within a set of linked items. They are recycled when recycling enhances the relevance of profit or loss.

Eg remeasurement of a derivative in a cash flow hedge

- (c) Transitory remeasurements—arise on long-term items and are likely to reverse or change significantly over the holding period. They are only recycled *if* recycling enhances relevance of profit or loss. That is, some transitory remeasurements are not recycled.

Eg actuarial gains and losses on pension liabilities

¹ IAS 1 *Presentation of Financial Statements* requires total comprehensive income to be split in two categories: profit or loss and OCI. IAS 1 permits entities to present those categories in a single statement or two separate statements.

Feedback received²

6. Most respondents agreed that the statement of profit or loss is the primary source of information about an entity's performance for the period and agreed that profit or loss should be required as a total or subtotal. Many respondents asked the IASB to define or better describe profit or loss and its purpose, or define financial performance. However, only a few made suggestions as to how that might be done.
7. Respondents expressed mixed views on items that could be included in OCI and recycling. Most respondents supported a broad use of OCI and/or flexibility in the use of OCI and recycling for some, or all, items included in OCI. The views expressed on OCI and recycling did not necessarily link to the categories of items that could be included in OCI proposed by the IASB.
8. Feedback from investors was generally consistent with the feedback from other types of respondents. That is, investors agreed that a profit or loss total or subtotal is an important indicator of an entity's performance, asked for a definition of financial performance and expressed mixed views on OCI and recycling. However, some investors also emphasised that performance of an entity is multi-dimensional and therefore no single financial statement number could be suitable for all investors' needs. They observed that analysts always adjust the profit or loss total or subtotal to arrive at a number that they will use in their analysis.
9. Many investors seemed to place a greater emphasis on operating profit than on the profit or loss total or subtotal. In addition, many stated that OCI and recycling are not well understood by the investor community and are not taken into account by many investors in their analysis. Many investors emphasised the importance of appropriate disaggregation of information in the financial statements and the need for transparency around the use OCI and recycling. Finally, many investors asked the IASB to reactivate all or parts of the Financial Statement Presentation project.

² For a detailed summary of the feedback received refer to [March 2014 Agenda Paper 10I](#).

Redeliberations

10. In March and April 2014, the IASB discussed the feedback received on the proposals in the *Conceptual Framework* Discussion Paper and considered alternative approaches to developing those proposals.³ The IASB directed the staff to develop an approach for the *Conceptual Framework* 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.
11. The requirements for *entities* (eg preparers of financial statements) will continue to be set out in IAS 1. That is, entities will continue to be required to include all items of income and expense in profit or loss unless a Standard requires or permits otherwise.

The IASB staff's proposed approach⁴

12. The staff propose that the statement of profit or loss is described in the *Conceptual Framework* as the primary source of information about an entity's performance for the period and that profit or loss is required as a total or subtotal in the *Conceptual Framework*.
13. The staff propose that the *Conceptual Framework* sets out the objective of profit or loss—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.
14. The staff propose that the *Conceptual Framework* includes a rebuttable presumption that an item of income and expense must be included in profit or loss. In setting the Standards, 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

³ For a detailed discussion of the alternative approaches considered by the IASB refer to [April 2014 Agenda Paper 10D](#).

⁴ For a detailed discussion of the approach proposed by the staff refer to [June 2014 Agenda Paper 10B](#).

limited circumstances, when the IASB concludes that doing so would enhance the relevance of profit or loss as the primary 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 profit or loss. In such cases, the resulting difference would be included in OCI. The IASB could also conclude that including an item of income and expense in OCI would enhance the relevance of profit or loss in other circumstances.

15. The staff propose that the rebuttable presumption cannot be rebutted for the following items of income and expense (ie they would only be included in profit or loss):
- (a) gains and losses recognised on initial recognition of an asset or a liability (eg a gain or loss on initial recognition of a financial instrument whose fair value is evidenced by a quoted price in an active market);
 - (b) income and expenses arising on assets and liabilities carried at *cost-based measures* (eg a write-down of an inventory item to its net realisable value);
 - (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.
16. The staff also propose that the *Conceptual Framework* includes a rebuttable presumption that an item of income and expense included in OCI must be recycled to profit or loss. Recycling takes place when doing so enhances the relevance of profit or loss as the primary source of information about an entity's performance for the period. For example, under the upcoming completed version of IFRS 9, for a debt investment measured at fair value through OCI, the gain or

loss accumulated in OCI is recycled upon disposal: the resulting gain or loss on disposal recognised in profit or loss is the same as the gain or loss that would have been recognised if that investment had been measured at amortised cost. In setting the Standards, the IASB could consider prohibiting recycling in limited circumstances when the IASB concludes that recycling would undermine the relevance of profit or loss for the period. That could be the case, for example, when there is no clear basis for recycling.

Questions for the members of GPF/CMAC

1. Do you agree with the proposed rebuttable presumption that items of income and expense should be included in profit or loss unless including them in OCI enhances the relevance of profit or loss for the period? Why or why not?
2. Do you agree that items of income and expense listed in paragraph 15 should always be included in profit or loss? Why or why not? Are there other items of income and expense that you think should be included in that list?
3. Do you agree that items of income and expense could be included in OCI when the IASB concludes that one measurement basis is appropriate for profit or loss and a different basis for the balance sheet? Why or why not?
4. Do you agree with the proposed rebuttable presumption that items of income and expense included in OCI must be recycled unless recycling undermines the relevance of profit or loss for the period? Why or why not?