STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Amendments to IAS 1: analysis on amendment arising from presentation of items of OCI of equity-accounted investments

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Introduction

1. The Exposure Draft *Disclosure Initiative: Amendments to IAS 1* proposed to amend paragraph 82A, and the accompanying Guidance on implementing IAS 1, to clarify that entities shall present the share of other comprehensive income (‘OCI’) of associates and joint ventures accounted for using the equity method:

   (a) 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

   (b) presented in aggregate as a single line within those classifications.

2. This issue arose from an April 2013 request to the IFRS Interpretations Committee. The submitter requested that the Interpretations Committee 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 (classified by whether or not the items will be reclassified (recycled) to profit or loss).

Feedback received

3. Nearly all respondents agreed with the proposed amendment to IAS 1 *Presentation of Financial Statements* related to the presentation of items of OCI of associates and joint ventures accounted for using the equity method. In voicing their support for the amendment, respondents largely agreed with the reasoning provided in the Basis for Conclusions.

4. A more detailed analysis of the reasons respondents supported the proposed amendment is given in the September 2014 Agenda Paper 11C.

5. The staff noted three issues for consideration when finalising the amendment. Firstly, a few respondents felt that the requirements for whether items of OCI of associates and joint ventures accounted for using the equity method should be presented before or after tax were unclear. These respondents noted that the Illustrative presentation of financial statements in IAS 1 presents the share of OCI of associates after tax, and that this is explicitly mentioned in the footnote to those line items. However, they think that this is not reflected in the body of the Standard—specifically, not in IAS 1 paragraphs 82A, 90 or 91—and suggest including it for clarity.

6. Second, a few respondents asked that the Guidance on implementing IAS 1 be expanded to include an example of an item of OCI for equity accounted investments that may be reclassified subsequently to profit or loss. The Illustrative example in the Exposure Draft includes only an item that will not be reclassified to profit or loss, however a footnote to the Illustrative example was included to explain how the presentation would change if the associate in the example had an item of OCI that may be subsequently reclassified to profit or loss.

7. Third, some respondents provided drafting comments. The most mentioned comment among these was the suggestion to use the term ‘investee’ rather than ‘associates and joint ventures’, because this would align with the language in IFRS 10 and IAS 28.

Staff analysis and recommendation

8. The staff remain of the view that the proposed amendment to paragraph 82A and the accompanying Guidance on implementing IAS 1 will clarify the appropriate requirement that entities shall present items of OCI arising from equity-accounted investments:

   (a) 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

   (b) presented in aggregate as a single line within those classifications.

9. Regarding the issue raised about tax, the staff agree:

(a) with the observation made that an entity's share of OCI of associates or joint ventures is after tax and non-controlling interests; and

(b) that this is specified only in the Illustrative presentation of financial statements in IAS 1 and not in the Standard itself.

10. IAS 1 provides two presentation options for the tax effects on OCI in paragraphs 90 and 91. We note however that paragraphs 90 and 91 relate to the entity's income tax, and not to an associate's or joint venture's income tax. Consequently, the disclosure requirements in paragraphs 90 and 91 do not apply to the tax of the associate or joint venture that is already reflected in the after-tax OCI of the associate or joint venture. These paragraphs would however apply to any tax effects that the entity itself is subject to on its share of the after-tax OCI of the associate or joint venture.

11. We are of the view that the fact an entity's share of OCI of associates or joint ventures is after tax and non-controlling interests is clear based on the principles of equity method accounting in IAS 28. Under the equity method, an investor adjusts its carrying amount in an investee for changes in its proportionate interest arising from changes in the investee's OCI. We note that the footnote to the line of the share of OCI of associates in the Illustrative presentation of financial statements in IAS 1 is consistent with this, and states that the amount is after tax and non-controlling interests. Consequently, we do not think that an amendment to clarify the presentation of tax is needed.

12. We disagree with the second suggestion to expand the Guidance on implementing IAS 1 to show an item of OCI for equity accounted investments that may be reclassified subsequently to profit or loss. We are of the view that the amended language in paragraph 82A, along with the expanded clarifying footnote in the Guidance on implementing IAS 1, is clear and sufficient to understand the requirement.

13. We also note that the disclosure structure in paragraph 82A as clarified by the proposals in the Exposure Draft will be appropriately reflected in the IFRS Taxonomy (ie the Taxonomy will include two lines; one for the share of OCI of equity-accounted investments that will not be reclassified subsequently to profit or

loss, and another for the share of OCI of equity-accounted investments that may be reclassified subsequently to profit or loss).

14. We acknowledge the third suggestion to use the term ‘investee’ rather than ‘associates and joint ventures’, however disagree with it in this case because this issue is an amendment to IAS 1 to clarify that Standard’s requirements, and should hence remain aligned with the language presently used in paragraphs 82 and 82A of IAS 1 (which is ‘associates and joint ventures accounted for using the equity method’). We think that the suggestion would be better considered as part of a broader revision of IAS 1 in whole or its terminology.

15. Based on the strong support for the amendment, and the staff analysis presented above, we recommend that the IASB finalises this amendment to IAS 1 as drafted in the Exposure Draft.

Question 1— Proposed amendment to IAS 1 arising from the presentation of items of OCI of equity-accounted investments
Does the IASB agree with the staff recommendation to finalise the proposed amendment to IAS 1 arising from the presentation of items of OCI arising from equity-accounted investments as drafted in the ED?