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STAFF PAPER

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Project	**Research project on Performance Reporting**
Paper topic	Review

CONTACT(S) Denise Durant ddurant@ifrs.org +44 (0) 20 7246 6469

Purpose of this paper

1. In this paper I describe how the Performance Reporting project relates to the Disclosure Initiative, the *Conceptual Framework for Financial Reporting* ('*Conceptual Framework*') project and the previous Financial Statement Presentation project (which was suspended in 2010).

Defining the problem

2. Over the years there has been a strong demand (especially from users of the financial statements) for the IASB to undertake a project on performance reporting. This is because of a number of concerns identified on how items—particularly income and expenses—are presented in the financial statements. We summarise those concerns in the following sections.

No conceptual basis for presenting items of income and expense

3. Some observe that current IFRS does not provide a justification or rationalisation of the current structure for reporting income, expenses, gains and losses.

4. They observe that the only conceptual basis is offered by the *Conceptual Framework*, in which it differentiates components of income and expense according to their 'source'. However, it is not clear what is meant by this word.

The role of profit or loss, other comprehensive income and recycling

5. Some view the split between profit or loss and other comprehensive income (OCI) as an artificial separation of income and expenses. They think that there is a lack of clarity of:

   (a) the role of OCI, which has been perceived as a 'dumping ground' for anything controversial;

   (b) which items of income or expense should be presented in profit or loss and which should be presented in OCI;[1] and

   (c) whether, and when, items previously recognised in OCI should be recycled subsequently from OCI to profit or loss.

6. The following extract from EFRAG's 2006 report *What (if anything) is wrong with the good old income statement?* illustrates these views (emphasis added):

> … **the current reporting model is based around a net income notion and it uses recycling techniques** to recognise items of income and expense that have previously been recognised outside net income within net income at the appropriate time. **Some believe that there is no consistent, well-articulated and credible rationale underpinning the model—no such rationale has been developed to date and, in their view, no such rationale is capable of being developed**. As such, in their view **the current net income reporting model should be abandoned in favour of a model that is based on a consistent, well-articulated rationale, and would almost certainly involve a single comprehensive statement of income and expenses. Until that happens, important information will continue to be overlooked simply because it has not been deemed to be part of net income**.

[1] There does not seem to be a disagreement on the fact that profit or loss provides the primary source of information about an entity's performance. In this respect, paragraph 4.2 of the *Conceptual Framework* states that (emphasis added): '**Profit is frequently used as a measure of performance or as the basis for other measures,** such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses'.

Non-homogenous components are aggregated together

7. Some view comprehensive income as an aggregation of components that convey different information about financial performance, because of their different nature, predictability, frequency of occurrence and measurement basis. They claim that this is the case of, for example, fair value changes, one-time disposal gains and losses or unusual events, impairments and revaluations of fixed assets, or restructuring costs or pension actuarial gains and losses. However, there is no consensus on a basis for the categorisation and ordering of such components.

8. The following extract from the ASB's FRED 22 Revision of FRS 3 *Reporting Financial Performance* (December 2000) illustrates this view (emphasis added):

> **The financial performance of an entity is made up of components that exhibit differing characteristics in terms of, for example, their nature, cause, function, relative continuity or recurrence, stability, risk, predictability and reliability.** All these components are relevant to an assessment of financial performance and therefore need to be reported on in the statement of financial performance, **although their individual characteristics mean that some will carry more weight than others.** (para 7)

Information is not sufficiently disaggregated

9. Some have also raised concerns about the fact that information is not sufficiently disaggregated in financial statements. IAS 1 *Presentation of Financial Statements* provides little specific guidance on the presentation of line items in financial statements, such as the level of detail or the number of line items that should be presented. This creates inconsistency in the amount of aggregation, which, in turn, creates difficulties for users who want to understand and analyse an entity's activities. Some also observe that a different pattern of aggregation is adopted in each of the financial statements; for example, the categories used in the cash flow statement are usually not in line with the items presented in the income statement so the statements do not follow a consistent structure or the same pattern of aggregation.

10. The following extract from the CFA Institute's *A Comprehensive Business Reporting Model: Financial Reporting for Investors* (July 2007) illustrates these views (emphasis added):

> … **the current reporting model does not provide sufficient information to enable investors to make the needed changes. The extreme degree and inconsistent pattern of aggregation and netting of items in the statements—along with the obscured, even opaque, articulation of the financial statements—make such analysis ineffective or impossible**. **As a result, investors must resort to estimates and best guesses to arrive at information essential for financial decision making**. The decisions made can be no better than the quality of the information that supports them. If inadequate financial statements are an impediment to sound financial decision making, then their quality should be improved.

11. Many users have also emphasised the importance of the meaningful disaggregation of information and the use of subtotals, such as a subtotal for operating profit.

Prior work on performance reporting

12. The IASB has considered performance reporting, on and off, for almost a decade and has made several attempts to develop proposals for a consistent approach to the reporting of items in the financial statements.

13. In 2001 the IASB added a project to its agenda on performance reporting that focused on proposing a new model for reporting income and expenses in the income statement and on the alignment of the income statement with the statement of cash flows.

14. In 2003 the IASB amended IAS 1 as part of the Improvements project. The IASB removed the requirement to present the results of operating activities as a line item in the income statement and eliminated the category 'extraordinary items' from the income statement.

15. In 2004 the IASB and the FASB continued the work on performance reporting in a joint project on the financial statement presentation (FSP). The scope of this project was broader than in 2001, because it addressed the presentation and display of information in all the financial statements and published some preliminary views in the Discussion Paper *Preliminary Views on Financial Statement Presentation* (the 'FSP DP').[2]

16. In 2010 the IASB published its Staff Draft of the Exposure Draft *Financial Statement Presentation* (the 'FSP Staff Draft'), but did not formally require comments on this draft.[3] Some of the input received indicated that a proper debate was still needed on performance reporting and urged the IASB to give this topic higher priority.

17. In 2011 respondents to the IASB's Agenda Consultation urged the IASB to address the reporting of financial performance as a priority topic. They thought that the IASB should provide guidance on the recognition of income and expenses outside the statement of profit or loss (OCI) and subsequent reclassification of income or expenses recognised in OCI to the statement of profit or loss ('recycling').

Recent work on performance reporting

Conceptual Framework

18. The IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the 'CF DP') published in July 2013 developed preliminary views regarding the use of profit or loss and OCI by addressing the following questions:[4]

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2 http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/DP08/Documents/DPPrelViewsFinStmtPresentation.pdf.

3 http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/Documents/FSPStandard.pdf.

4 The CF DP discussed two approaches that described which items could be included in OCI: a 'narrow approach', which includes items that meet the definition of bridging items or mismatched remeasurements that would be recycled to profit or loss; and a 'broad' approach, which includes the items in the 'narrow approach' plus items meeting the definition of 'transitory' remeasurements; these

(a) what distinguishes items of income and expense that are recognised in profit or loss from those recognised in OCI?

(b) what items recognised in OCI in one period should be reclassified (recycled) into profit or loss and why? [5]

19. Respondents to the CF DP indicated that the IASB should do more because the distinction between profit or loss and OCI in the CF DP was not sufficiently clear or conceptually robust and merely attempted to justify the existing requirements.[6] Some urged the IASB to explore the broader question of financial performance or to define OCI or to directly describe the statement of profit or loss and its purpose.[7] In this respect, many respondents:[8]

(a) urged the IASB to better articulate the distinction between profit or loss and OCI but few provided suggestions on how this can be done.

(b) disagreed with treating profit or loss as a default category.

(c) agreed that profit or loss should be required to be presented as a total or subtotal.

(d) expressed a variety of views on recycling ranging from 'always recycle' to 'never recycle'. However, most respondents supported recycling for some, or all, items included in OCI. The views expressed on recycling did not necessarily link to the categories identified by the CF DP.

20. The section of the Exposure Draft for the revised *Conceptual Framework* (the 'CF ED') on financial performance is reproduced in the appendix to this paper. That section will include a discussion on the section of the statement of financial performance that presents profit or loss and will include the following proposals:[9]

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items would be recycled only when this would provide relevant information in profit or loss (see paragraphs 8.40 –8.97 of the CF DP).

5 See paragraph 8.34 of the CF DP.

6 In paragraphs 52 –53 of Agenda Paper 10M, the staff reported that users did not find the proposed categorisation of OCI particularly useful, mainly because they noted overlaps among the categories.

7 See paragraph 23 in: http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/Feedback-on-Conceptual-Framework-Discussion-Paper.pdf.

8 We looked at the feedback summary on profit or loss and OCI in Agenda Paper 10I of March 2014.

9 Profit or Loss might be presented as a separate statement along with a statement of OCI.

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

(b) require a total or subtotal for profit or loss; and

(c) include a presumption that all income and all expenses will be included in the statement of profit or loss but that sometimes some income or expenses are excluded from the statement of profit or loss to enhance the relevance of this statement.

21. The CF ED does not define profit or loss, OCI or financial performance.

Disclosure Initiative

22. In December 2014 the Disclosure Initiative amended IAS 1 to clarify, among other topics:

(a) the materiality requirements in IAS 1;

(b) the disaggregation of specific line items in the statement of profit or loss and OCI and the statement of financial position;

(c) how an entity should present subtotals in the statement of profit or loss and OCI and the statement of financial position; and

(d) the order in which entities present the notes to the financial statements.

23. In February 2015 the Disclosure Initiative discussed the presentation of 'alternative' or 'adjusted' performance measures, non-IFRS information and the depiction on non-recurring, unusual or infrequently occurring transactions in the financial statements.

24. The Disclosure Initiative—Principles of Disclosure (POD) project is currently developing content and communication principles for the display of information in the financial statements for how information should be presented consistently across the financial statements and how it should be aggregated in a meaningful way.

25. In December 2014 the Disclosure Initiative proposed some amendments to IAS 7 *Statement of Cash Flows* requiring a reconciliation of the opening and closing

liabilities that form part of an entity's financing activities, excluding the changes in contributed equity.

26. The UK Financial Reporting Council (UK FRC) has been working in partnership with the IASB to undertake work on the statement of cash flows. This project will address some fundamental questions about this statement, including trying to establish its main purpose, what currently works well, whether its structure needs to be revised and whether it is relevant for all types of entity. The IASB plans to publish the UK FRC staff’s research during 2015 as a way of encouraging debate and getting input for the Performance Reporting project.

So, what else can be done?

27. We observe that one aspect of performance reporting that has not been addressed by the *Conceptual Framework* or the Disclosure Initiative is the structure of the statement of profit or loss and OCI. By ‘structure’ we mean the arrangement or organisation of the items of income and expense in the statement of profit or loss and OCI.

28. As we have discussed earlier on in the paper, the structure of the statement of profit or loss and OCI remains a controversial issue. While it is recognised that different components of income and expense convey different information, there is no consensus on the basis for their categorisation and ordering. Moreover, there are questions about whether the split of total comprehensive income into two categories—profit or loss and OCI—provide an appropriate measure of financial performance.

29. So, we think that the project on performance reporting could provide a structure to the statement of profit or loss and OCI (in the form of required sections, categories or subcategories, related subtotals and the analysis of the components of OCI and the recycling of such components) and, in this way, address the concerns identified on how items of income and expenses are presented in the financial statements.

30. We expect that there will be future proposals to change the reporting of comprehensive income to have consequential effects on the statement of changes in equity derived from the discussions on OCI and recycling.[10]

31. Addressing the presentation of the components of comprehensive income could become a good opportunity to consider if the statement of profit or loss and OCI and the statement of cash flows should be more closely aligned (for example, to tighten definitions of categories), given the fact that there is a disconnection between the two statements under the current financial reporting.[11, 12] However, we think that it is still too early to say what the extent of this alignment could be. We expect that the IASB will work in co-ordination with the UK FRC in developing this potential alignment with the statement of cash flows.

32. In the following section we will discuss the work that the IASB could undertake in providing structure to the statement of profit or loss and OCI.

Performance reporting

33. We know that users from all sectors incorporate profit or loss in their analysis, either as a starting point for further analysis or as the main indicator of the entity's financial performance for the period, and use it as the basis for assessing prospects for future cash flows and management's stewardship of the entity's resources.[13]

Benefits

34. The project on performance reporting would have benefits for users and preparers. It would:

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[10] The project should also consider any pertinent changes to the statement of changes in equity derived from its discussions on OCI and recycling.

[11] So if, for example, the performance project considers defining 'financing activities', this definition should equally apply to the classification of items of income and expense and cash flows.

[12] For instance, the categories used in the cash flow statement are usually not in line with the items presented in the statement of comprehensive income. As a result, the statements do not follow a consistent structure or present the same pattern of aggregation. In this respect some users think that that each of the primary financial statements should adopt the same approach to disaggregation and presenting subtotals, using the same categories in each statement.

[13] The *Conceptual Framework* project summarised the feedback obtained from the user community in Agenda Paper 10M (March 2014) in paragraphs 38–56 of this paper.

(a) permit preparers to communicate important aspects of the entity's performance management to the users of its financial statements; and

(b) enable users to:

(i) differentiate between different types of income and expenses, gains and losses; and identify the characteristics and, hence, facilitate the forecasting of future cash flows and the assessment of performance; and

(ii) obtain relevant measures of performance through appropriate subtotals.

Interaction with other projects

Link with the Conceptual Framework *and the Disclosure Initiative projects*

35. The project on performance reporting should also consider any relevant research and recommendations from the *Conceptual Framework* and the Disclosure Initiative projects and benefit from their current work. In our view, the work from the *Conceptual Framework* and the Disclosure Initiative—POD should provide a departure point for analysis or a 'toolkit' for the project on performance reporting. For example:

(a) if the Disclosure Initiative—POD prescribes the need to disaggregate/aggregate items in the financial statements; the project on performance reporting could further analyse how to perform this disaggregation/aggregation in the financial statements by prescribing specific sections and categories, or prescribed totals and subtotals; and

(b) if the *Conceptual Framework* requires a split between profit or loss and OCI in the statement of comprehensive income; the project on performance reporting could look into which specific components should be presented in profit or loss or OCI.

Interaction with the former FSP project

36. The project on performance reporting should also benefit from the IASB's earlier work on the FSP. This project identified and documented the main problems regarding the structure of the financial statements, which means that the work of

the project on performance reporting could use that earlier work and develop solutions.

37. The project on performance reporting will be narrower in scope than the FSP project was, because it will not develop core principles for the presentation of financial statements. These principles will be developed as part of the Disclosure Initiative—POD project.

Methodology

38. The project on performance reporting should be aimed at providing a structure to the statement of profit or loss and OCI that would meet the needs of users and preparers. Some potential issues that could be explored as part of this project are:

    (a) identification of a model(s) for aggregating or disaggregating items of income and expense (for example, operating income vs financing or ‘other’ income) and the order in which components are presented (for example, financing costs below the operating line);

    (b) the identification of totals and subtotals (so if the project defines an ‘operating income’ category, a natural consequence is to have an operating income subtotal); and

    (c) the analysis of the components of OCI and the recycling of such components.

39. The project on performance reporting would be mainly focused on the presentation of components of income and expense on the face of the statement of profit or loss and OCI.

40. The following paragraphs describe in more detail the potential issues that the project on performance reporting could consider. It also relates these issues with some of the activities undertaken by the projects on the *Conceptual Framework*, the Disclosure Initiative—POD and the FSP.

Potential issues

Identification of a model(s) for aggregating or disaggregating items of income and expense

41. We observe that many users have emphasised the need of having meaningful disaggregation of information and the use of subtotals, such as a subtotal for operating profit.

42. We think that this part of the project could define sections or categories in the statement of comprehensive income to produce relevant and useful groupings and, in doing so, it could consider the following criteria:

    (a) disaggregation by function, by nature or both (ie disaggregation of functional components by nature); and

    (b) categorisations:

        (i) operating vs non-operating; or operating vs financing vs other?

        (ii) core vs non-core?[14]

        (iii) cash components vs accrual components?[15]

        (iv) remeasurement vs before remeasurement?[16]

43. The project could also assess whether some categorisations should take primacy over others. For example, if the view is taken that a conceptual distinction can be made between 'operating' and 'financing', it would then be possible to categorise line items further—perhaps a further distinction of items of income and expense could be made between cash components vs accrual components; and a third

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[14] Paragraph 2.64 of the FSP DP refers to 'core' activities as the central operations of an entity.

[15] This disaggregation approach was proposed in the FSP DP (see paragraph 4.31). An entity would disaggregate comprehensive income by separating the changes in net assets underlying comprehensive income into cash and accrual components (the difference between comprehensive income and the cash component). Evidence from academic research tends to indicate that the cash components of income have a higher earnings persistence for earnings and cash flows than the accrual components.

[16] Paragraph 234 of the FSP Staff Draft defined remeasurements as 'an amount recognised in comprehensive income that increases or decreases the net carrying amount of an asset or a liability and that is the result of: (a) a change in (or realisation of) a current price or value; (b) a change in an estimate of a current price or value; or (c) a change in any estimate or method used to measure the carrying amount of an asset or a liability.' Some claim that because the effects of remeasurements reflect risk factors that are not relevant for reporting an entity's financial performance, they should be disclosed separately in the statement of profit or loss and comprehensive income.

further distinction between recurring remeasurements that result from fair value changes from all other remeasurements.[17]

44. The issues analysed in this part of the project could benefit from previous work in the FSP project. The FSP Staff Draft and the FSP DP provided guidance:

(a) on disaggregation by nature, function and measurement basis;

(b) on the definitions of the financing and operating categories as well as examples of activities that could be classified as part of operating and financing activities;

(c) for the disclosure of the remeasurement component of items of income and expense; and

(d) for the separate disclosure of material events that are unusual or that occur infrequently.

45. This part of the project could also look into:

(a) the forthcoming *Principles of Disclosure* Discussion Paper (the 'POD DP') and its preliminary views on materiality and aggregation (see the IASB *Update* April 2015); and

(b) the CF DP's preliminary views on some common attributes that could be used to distinguish between items that should be recognised in profit or loss and those in OCI.[18]

Considerations in developing this part of the project

46. We observe that the responses to the FSP DP showed that preparers and users have mixed views about how strictly sections or categories should be defined in the financial statements. In this respect, preparers tended to support a management approach to the classification of items in a manner that best reflects the way in which they are used by the entity. However, users expressed concern about the subjective nature of the management approach in classification and

[17] This disaggregation is proposed in paragraph 4.37 of the FSP DP.

[18] Table 8.1 on pages 158–159 of the CF DP notes that common attributes to distinguish items included within profit or loss and OCI are realisation, persistence, operating nature, measurement uncertainty, long-term nature of underlying assets and liabilities and management control.

demanded a classification approach that results in consistent and uniform classification.

47. Responses to the FSP DP also reflected different views about the separation among business and financing activities during the development of the proposals for the FSP project.[19] We have reproduced some of the reactions from users and preparers to the FSP's proposals:[20]

(a) there was no consensus among analyst participants as to which liabilities should be included within the financing section; the preparer participant responses were mixed and split between the fact that the financing section was either 'too strictly defined' or 'too loosely defined'.

(b) many respondents considered the operating income subtotal to be one of the more useful subtotals in the proposed working format; however, they were concerned that the operating income subtotal could be made less useful if the operating category was a default category for items that were otherwise difficult to classify.

(c) several respondents suggested that the operating and investing categories should be relabelled as 'core' and 'non-core' business categories, because those labels provide a better description of the types of items to be presented in those categories within the business section.

(d) analyst participants did not agree on the presentation of several items in the operating section (primarily lease liabilities, interest on lease liabilities and income taxes). Several thought that lease liabilities and related interest should be a financing item instead of an operating item.

(e) several analyst participants thought that some income taxes should be presented as part of the operating category; some others thought that there should be a split between their operating and financing components.

[19] In the FSP DP it was suggested to have business, financing, income taxes, discontinued operations and equity categories. The business category was comprised of an operating and an investing category.

[20] During the FSP DP's six-month comment period, the staff undertook a field test of the presentation model proposed and received comments from preparers and users of the financial statements. In this section we refer to some of these responses from the field test carried out.

(f) some respondents disagreed with the proposed classification of specific items. For example, some thought that the gains and losses on disposals of property, plant and equipment and capital expenditures are not related to day-to-day operations and therefore should not be included in the operating category. Some analyst participants did not understand the classification of investments in associates/affiliates as investing.

48. Consequently, we think that this part of the project should acknowledge the tension between the views from preparers and users about the insertion of sections and categories and the IASB should determine whether it would develop:

(a) strict definitions of sections or categories; or

(b) a more general framework that would give entities enough flexibility to present information according to how they manage their business.

49. Regarding the level of aggregation required for the statement of profit or loss and OCI, we observe that respondents to the FSP DP were also concerned about the increased levels of categorisation within this statement and thought that it was being substantially overloaded with the disclosure of by-function and by-nature information. In this respect, these respondents observed that:

(a) information that is too granular could hinder instead of help prospective users;

(b) in some cases, disaggregation by both function and nature would be impeded, such as in the case of cost of goods sold or foreign currency translation adjustments, due to financial system constraints; and[21]

(c) disaggregation may be beneficial only for certain industries (ie manufacturing companies) and not for others (ie service companies).

[21] In discussions with preparers we heard, for example, that running an accounting system that is capable of tracking material flows in their component parts so that the cost of sales can be split into its original components would be extremely expensive to set up. We also heard that setting up systems to have subsidiaries report and consolidate the types of expense incurred by individual cost centres would have a substantial cost.

50. We think that all these concerns should be taken into account in developing guidance for disaggregating information on the face of the statement of profit or loss and OCI.

Identification of totals and subtotals

51. The project on performance reporting could address the presentation of totals and subtotals for each section or category included in its financial statements. It could consider whether:

    (a) totals and subtotals should flow from the order of the sections and categories proposed as part of the Performance Reporting project;

    (b) subtotals can be added up randomly (ie without following the proposed order of the sections and categories in the statement of profit or OCI); and

    (c) some totals and subtotals should be mandatory and some others discretionary; or whether any subtotals should be explicitly precluded.

52. This part of the project could be built upon:

    (a) the existing guidance in paragraph 85 of IAS 1;

    (b) the guidance developed by the Disclosure Initiative project about the presentation of line items, headings and subtotals in paragraphs 85A–85B of IAS 1; and

    (c) the guidance developed by the FSP project on the presentation of meaningful subtotals and headings (ie paragraph 112 in the Staff Draft).

53. This part of the project could also aim to define or standardise the way in which entities report the most commonly alternative performance measures in their communications with the markets and determine whether any of these alternative measures should be incorporated in the financial statements.[22] In addressing this issue we think that this part of the project should follow closely the preliminary

[22] In February 2015 the Disclosure Initiative discussed with the IASB the definition of alternative performance measures (APMs). In paragraph 4 of Agenda Paper 11B, the staff noted the following: 'We think the APMs that we should look at are those conveyed by an entity as an alternative (ie competing) measure of performance, to which the entity gives more emphasis than it does to the IFRS measures. These APMs tend to exclude some income or expense items to convey management's view of profit or loss'.

views on the presentation of EBIT and EBITDA in the statement of profit or loss, which the Disclosure Initiative POD DP plans to include.[23]

54. We do not think that the project on performance reporting should focus on the presentation of specific line items on the face of the statement of profit or loss and OCI (when this presentation is not specified elsewhere in IFRS), because we think that this presentation could be addressed in specific projects.

55. However, the project on performance reporting could aim to bring to the attention of the IASB to the divergent views on the presentation of specific line items and issue recommendations on how the presentation of these line items could be dealt with.[24] For example, IAS 1 requires the separate presentation of the *share of profit or loss of associates and joint ventures accounted for using the equity method*; however, it is not clear whether this line item should be included below or above operating results. The Performance Reporting project could recommend that this line item be specifically addressed within the IASB's research project on the equity method and/or as part of the Post-implementation Review of IFRS 11 *Joint Arrangements.*

Considerations to take into account

56. We observe that attempting to define subtotals or in classifying items 'below' or 'above' the line can be viewed as being arbitrary and subjective. For example, there may be different views on whether the impairment of property, plant and equipment or a gain or loss on disposal should be below or above the line. Equally, one could view a non-recurring item as belonging below the line, yet a definition of non-recurring could be elusive.

57. Moreover, we think that it is not realistic to attempt to reduce the performance of an entity to a single performance measure (for example, operating income); or even to attempt providing a single figure that will eliminate the need to adjust profit or loss to a number that users or analysts use in their models.

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[23] See the IASB *Update* February 2015.

[24] The IFRS Interpretations Committee analysed in 2014 a request from the European Securities and Markets Authority (ESMA) to clarify the presentation requirements in IAS 1. In this submission ESMA pointed out that that there are divergent views regarding the presentation of impairment losses, of the components of costs of sales and of the share of the profit or loss of associates and joint ventures. See Agenda Paper 20 (January 2014).

58. We think that in developing this area of the project the IASB should evaluate whether:

    (a) it should prescribe certain meaningful subtotals that can be used as reference points in assessing the performance and a starting point for a more detailed analysis and adjustment; or

    (b) it should simply provide sufficient raw data for investors and let the users come up with relevant subtotals.

59. This project should also consider whether some performance indicators or measures may need to be redefined; for example, earnings per share (EPS).

Analysis of the components of OCI and the recycling of such components

60. We observe that OCI and recycling are still not well understood by the broader user community despite the recent attempts in the CF DP to explain the distinction between items of income and expense that are recognised in profit or loss from those recognised in OCI and on the recycling into profit or loss.[25]

61. Moreover, we observe that past attempts[26] to develop proposals for a consistent approach to reporting income and expenses outside the statement of profit or loss have failed because it seems that it has been impossible to find:

    (a) clear principles or common characteristics that could be used to classify items in profit or loss or outside profit or loss; and

    (b) a conceptual basis that underlies *all* the uses of OCI.

62. So the question is: should the project on performance reporting do more work on OCI and recycling?

63. If the answer is affirmative we think that there are two different approaches that the IASB could take. We explain these approaches in the following paragraphs.

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[25] In paragraph 52–53 of Agenda Paper 10M the staff reported that users did not find the proposed categorisation of OCI particularly useful.

[26] In this respect, we note that the FSP project considered the possibility of eliminating the separate presentation of OCI items. However, feedback from users indicated that a clear distinction between profit or loss and OCI should be maintained and the FSP project should continue to permit the presentation of OCI items in a separate section of the statement of profit or loss and OCI.

64. Under Approach 1 the project on performance reporting could work in co-ordination with the CF project to provide more transparency and clarity around what is included in profit or loss, what is excluded from profit or loss (ie in OCI) and what should be recycled to profit or loss.

65. Under Approach 2, the project on performance reporting would not focus on clarifying the distinction between profit or loss and OCI. Instead, this part of the project could take a complete different approach and start with an assumption that there is no 'OCI section' and then explore alternative ways of disaggregating and aggregating all the components of comprehensive income.

66. The aim would be to differentiate these components using different disaggregation criteria (and we think that a good starting point could be the 'attributes' identified in the CF DP identified to distinguish profit or loss from OCI) and draw attention to items that may need separate or additional consideration by a user in assessing an entity's performance and future cash flows.[27, 28] This part of the project could potentially explore:

   (a) a columnar approach to the statement of profit or loss and OCI to break out items of income and expense into other components (for example, gains and losses that result from remeasurements and all other gains and losses). We observe that the former project on reporting performance proposed took a similar approach.[29]

   (b) a primary disaggregation of items of income and expense on the basis of different categories and further disaggregation of these items on the

[27] These attributes are included in paragraph 8.37 and Table 8.1 on pages 158–159 of the CF DP. In developing these proposals the IASB observed that no single attribute could operationally and meaningful distinguish items that should be included in profit or loss from those in OCI and that many attributes could be interrelated.

[28] We think that it may be possible that something like OCI may result from this analysis.

[29] The former project on reporting financial performance discussed this columnar distinction in the statement of comprehensive income and called it a 'Matrix Approach'—Agenda Paper 3 of October 2002 illustrates this approach. This columnar approach is also discussed in this article by a former IASB staff member: Richard Barker, (2003) 'The revolution ahead in financial reporting: reporting financial performance', Balance Sheet, Vol. 11 Issue: 4, pp.19–23.

basis of additional(s) attribute(s). The FSP DP took a similar approach when it proposed:[30]

(i) the disaggregation of components of comprehensive income (including OCI) into business (ie operating and investing) and financing activities on the face of a 'single statement of comprehensive income';[31] and

(ii) further disaggregation of income into its cash accrual other than remeasurements and remeasurement components (for example, fair value changes) in the notes to the financial statements.

67. We envision that under Approaches 1 and 2 the discussion on recycling and the disaggregation model may involve some consideration of changes in the recognition and measurement requirements in other Standards. However, we think that it is too early to say what the extent of these changes would be.

68. If alternatively the IASB does not wish to do more work on OCI and recycling (Approach 3), the project on performance reporting would only focus on providing a structure for the statement of profit or loss and would keep the OCI components in a separate section without suggesting any changes.

69. In this respect, we observe that the FSP project discussed different alternatives for the separate presentation of OCI items (for example, presenting a separate OCI section within the proposed functional section, category or subcategory). However, the IASB and the FASB expressed mixed views on the alternatives and did not reach a consensus and considered dealing with changes to the recognition and measurement of OCI items in a separate project from the FSP project as a long-term goal.[32]

[30] Sections and categories are proposed in paragraphs 2.27–2.38 and the reconciliation schedule is proposed in paragraph 4.19 of the FSP DP.

[31] The FSP DP proposed to eliminate the choice to present components of income and expense under a two-statement approach. OCI items were presented in a separate section.

[32] See the IASB *Update* of October 2006 in which the IASB reported that: 'The boards agreed that the project should develop a financial statement presentation format that would accommodate their long-term goal of having all recognised income and expense items classified in the same manner (…)Recognising that changes to current standards that give rise to other recognised income and expense items will need to be made to achieve those long-term goals, the boards directed the staff to develop a presentation format that could be used in the interim (until the long-term goal can be achieved). The boards also directed the staff to develop a plan for achieving that long-term goal, such as whether those

Considerations to take into account

70. We observe that the developments of this part of the project (under Approaches 1 and 2) could lead to a redefinition of what should be included in profit or loss and outside profit or loss. Moreover, we think that there is no guarantee that such a change would be embraced because of the diversity of views on what performance is, and because there is still reluctance (mainly from preparers) to accept changes to the presentation of the components of comprehensive income and/or to make these changes operational.

71. Moreover, this part of the project should also be careful not to appear to be working towards:

(a) the removal of profit or loss because this subtotal is seen as the primary indicator of an entity's performance.

(b) giving excessive focus on a single (total) comprehensive income measure. In this respect, we observe that the FSP project had to reconsider its proposals in the FSP DP about presenting OCI along with other components of comprehensive income in a single statement of comprehensive income, because many respondents claimed that this presentation undermined the importance of profit or loss and gave more relevance to the last number in that statement (ie total comprehensive income).

(c) presenting most items of income and expense (including OCI items) above the line (ie profit or loss), because this could increase the use of APMs. Moreover, users have claimed that having OCI is useful because it isolates items from profit or loss that users do not think are relevant for performance or forecasting cash flows.[33]

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issues would be addressed in separate projects or as part of the financial statement presentation project.' See the IASB *Update* (December 2006) and Agenda Paper 15A of December 2006.

[33] The staff reported this in paragraph 46 of Agenda Paper 10M.

Appendix A—Extracts from the CF ED

Information about financial performance

7.19 In order to communicate information about financial performance more efficiently and effectively, income and expenses in the statement(s) of financial performance are classified into either:

(a) the statement of profit or loss, which includes a total or subtotal for profit or loss;14 or

(b) other comprehensive income.

7.20 The purpose of the statement of profit or loss is to:

(a) depict the return that an entity has made on its economic resources during the period; and

(b) provide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources.

7.21 Hence, income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period.

7.22 The total or subtotal for profit or loss provides a highly summarised depiction of the entity's financial performance for the period. Many users incorporate that total or subtotal in their analysis of the entity's financial performance for the period and in their analysis of management's stewardship of the entity's resources, using it either as a starting point for further analysis or as the main indicator of the entity's financial performance for the period. Nevertheless, understanding an entity's financial performance for the period requires an analysis of all recognised income and expenses (including income and expenses included in other comprehensive income), as well as an analysis of other information included in the financial statements.

7.23 Because the statement of profit or loss is the primary source of information about an entity's financial performance for the period, there is a presumption that all income and all expenses will be included in the statement of profit or loss. That presumption cannot be rebutted for:

(a) income or expenses related to assets and liabilities measured at historical cost; and

(b) components of income or expenses related to assets and liabilities measured at current values if the components are separately identified and are of the type that would arise if the related assets and liabilities were measured at historical cost. For example, if an interest-bearing asset is measured at a current value and if interest income is identified as one component of the change in the carrying amount of the asset, that interest income would need to be included in the statement of profit or loss.

7.24 The presumption that all income and all expenses will be included in the statement of profit or loss can only be rebutted if:

(a) the income or expenses (or components of them) relate to assets or liabilities measured at current values and are not of the type described in paragraph 7.23(b); and

(b) excluding those income or expenses (or components of them) from the statement of profit or loss would enhance the relevance of the information in that statement for the period. When this is the case, those income or expenses (or components of them) are included in other comprehensive income.

7.25 One example of when income and expenses will be included in other comprehensive income is when a current value measurement basis is selected for an asset or a liability for the statement of financial position and a different measurement basis is selected for determining the related income and expenses in the statement of profit or loss (see paragraphs 6.74–6.77).

7.26 If income or expenses are included in other comprehensive income in one period, there is a presumption that it will be reclassified into the statement of profit or loss in some future period. That reclassification occurs when it will enhance the relevance of the information included in the statement of profit or loss for that future period.

7.27 The presumption that such a reclassification will occur could be rebutted, for example, if there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss. If no such basis can be identified, this may indicate that the income or expenses should not be included in other comprehensive income.