

STAFF PAPER

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Project	Conceptual Framework		
Paper topic	Feedback summary—Information about financial performance		
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Purpose of paper

1. This paper summarises the feedback received on the discussion of presenting information about financial performance in the Exposure Draft *Conceptual Framework for Financial Reporting* (‘the Exposure Draft’).
2. This paper provides a high-level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Summary of key messages

3. In summary:
 - (a) The feedback on the Exposure Draft largely confirmed the feedback on the Discussion Paper *A review of the Conceptual Framework for Financial Reporting* in that interested parties hold diverse and often opposite views about presenting information about financial performance. Those views informed the respondents’ positions on the proposals in the Exposure Draft in different ways.
 - (b) Many respondents of those who commented on the proposals disagreed with some or all aspects of those proposals. Many respondents also stated that the proposed guidance is not conceptual or/and is insufficient to assist

the Board in future standard-setting and asked the Board to do further work on reporting financial performance.

- (c) A few respondents stated they could accept the proposals as a starting point and asked the Board to revisit the *Conceptual Framework for Financial Reporting* (‘the *Conceptual Framework*’) after the reporting of financial performance is addressed comprehensively. They welcomed the project on primary financial statements. A few others cautioned the Board against prejudging the outcome of any future work on reporting financial performance and being too specific in the *Conceptual Framework* at this stage.
- (d) Just under a half of the respondents generally agreed with the proposed description of the statement profit or loss. However, many of them asked for further guidance on which items of income or expense should be included in the statement of profit or loss and which should be included in other comprehensive income (‘OCI’).
- (e) Many respondents disagreed with the proposals on the use of OCI either because they had a different view on what items should be included in OCI or because they believed that the proposed guidance is insufficient and lacks a conceptual basis.
- (f) Over a half of the respondents thought that some, or all, OCI items should be recycled. However, they were divided in their views on the proposals in the Exposure Draft: roughly a half of them supported the proposed rebuttable presumption for recycling while the other half did not support it because they thought that the *Conceptual Framework* should require recycling in all cases. Some respondents stated they are unable to form a view on recycling until a conceptual basis for reporting financial performance is developed. Some respondents, although a minority, believed that OCI items should never be recycled and disagreed with the proposals on that basis.

Structure of paper

4. This paper is structured as follows:
 - (a) overview of the proposals in the Exposure Draft (paragraphs 5–10),
 - (b) feedback on presenting information about financial performance as a whole (paragraphs 11–20),
 - (c) feedback on individual questions in the Exposure Draft (paragraphs 21–35):
 - (i) description of the statement profit or loss (paragraphs 21–24),
 - (ii) reporting items of income and expense in OCI (paragraphs 25–26), and
 - (iii) recycling (paragraphs 27–35).

Overview of the proposals in the Exposure Draft

5. The Exposure Draft proposed that income and expenses are classified into the statement of profit or loss or OCI. The Exposure Draft did not specify whether the statement(s) of financial performance comprise a single statement or two statements.
6. The Exposure Draft did not propose to define profit or loss. Instead, it proposed to describe the statement, or section, of profit or loss as the primary source of information about an entity’s financial performance for the period, and to require a total or subtotal for profit or loss to be provided. The Exposure Draft also proposed that 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. Because 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, the Exposure Draft proposed a presumption that all income and all expenses will be included in that statement. It proposed that income or expenses could be reported outside the statement of profit or loss and included in OCI only if:

- (a) the income or expenses relate to assets or liabilities measured at current values; and
 - (b) excluding those items from the statement of profit or loss would enhance the relevance of the information in the statement of profit or loss for the period.
8. The Exposure Draft proposed to describe the types of income and expenses for which this presumption cannot be rebutted.
9. Because 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, the Exposure Draft also proposed a presumption that income or expenses included in OCI in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period. The Exposure Draft proposed that this presumption could be rebutted, for example, if there is no clear basis for identifying the period in which that reclassification would enhance the relevance of the information in the statement of profit or loss. If there is no such basis, it may indicate that the income or expense should not be included in OCI.
10. The invitation to comment on the Exposure Draft included the following questions for respondents:
- (a) Do you support the proposed description of the statement of profit or loss?
 - (b) Do you agree with the proposals on the use of OCI? Do you think that they provide useful guidance to the Board for future decisions about the use of OCI?
 - (c) Do you agree that the *Conceptual Framework* should include the rebuttable presumption for recycling items of income or expense included in OCI?

Feedback on presenting information about financial performance as a whole

11. This section considers feedback on the proposals for presenting information about financial performance as a whole. It focusses on interpreting the feedback received and the interrelationship between respondents’ views on presenting information about

financial performance and their positions on individual questions in the Exposure Draft.

Overview

12. Many respondents commented on the proposals for presenting information about financial performance. Most commented on all aspects of the proposals; however, some only commented on particular aspects of the proposals.
13. In some cases respondents stated their views on presenting information about financial performance but did not express a clear position on the proposals in the Exposure Draft. In some other cases respondents stated both their views on presenting information about financial performance and their positions on the proposals. However, respondents with similar views sometimes took different positions on the Exposure Draft, and vice versa. For example:
 - (a) Some respondents who disagreed with the proposed guidance on the use of OCI did so because they did not support a binary split between the statement of profit or loss and OCI and advocated a single statement of performance with appropriate classification and disaggregation of information. Conversely, others disagreed because they advocated a broad use of OCI and thought that the proposed guidance was too restrictive.
 - (b) Some respondents stated the view that all OCI items should be recycled and supported the proposed rebuttable presumption on recycling on that basis; others stated the view that all OCI items should be recycled and disagreed with the proposed rebuttable presumption on recycling because in their view it didn't go far enough.
14. To help the Board better understand the feedback received, the staff sought to provide an overview of both positions taken on the proposals and the underlying views.

Snapshot of feedback on proposals as a whole

15. Of the respondents who commented on the proposals:
 - (a) Some, although a minority, broadly supported all proposals (paragraph 16);

- (b) Many supported some but not all proposals (paragraphs 17–18); and
- (c) Many others generally did not support the proposals (paragraphs 19–20).

Broad support for the proposals

16. Some respondents broadly supported all proposals on presenting information about financial performance. Of those respondents:
- (a) Some agreed with the Board’s rationale for the proposals. They stated that the proposals represent a step forward in the debate on financial performance and would provide useful guidance to the Board in future standard setting.
 - (b) Some broadly agreed with the proposals but requested the Board to provide more guidance in the *Conceptual Framework*, in particular, on when including items of income or expense in OCI and subsequent recycling of those items would enhance relevance of the statement of profit or loss for the period.
 - (c) Some stated that they support the proposals as a temporary measure and asked the Board to comprehensively address presentation of financial performance in the future.

Support for some but not all proposals

17. Many respondents supported some but not all proposals on presenting information about financial performance. Of those respondents:
- (a) Many respondents broadly supported the proposed description of profit or loss but asked for more guidance on the distinction between the statement of profit or loss and OCI or made suggestions on what that guidance should be.
 - (b) Some respondents asked the Board to define profit or loss but expressed support for the OCI and recycling proposals.

- (c) Some respondents did not object to the proposals for the statement of profit or loss and OCI but asked for more guidance on when OCI items should be recycled.
18. Respondents who broadly supported the proposed description of the statement of profit or loss but asked for more guidance on the distinction between profit or loss and OCI made various suggestions as to what that guidance should be, for example:
- (a) The statement of profit or loss should:
 - (i) reflect matching of income and expenses;
 - (ii) include persistent items with high predictive value; or
 - (iii) focus on information helpful in assessing management’s stewardship;
 - (b) All remeasurements should be included in OCI except for specific cases such as recurring items or items held for trading;
 - (c) OCI should not only include remeasurements but also help to address accounting mismatches;
 - (d) The Board should focus more on developing principles for presentation of information about financial performance rather than a binary distinction between the statement of profit or loss and OCI;
 - (e) The distinction between the statement of profit or loss and OCI should not be viewed as a presentation question but rather as a measurement and recognition question.

Disagreement with the proposals

19. Many respondents who commented on presenting information about financial performance did not support the proposals. Those respondents fall into two groups:
- (a) Many of them disagreed because they did not think that the proposals were conceptually grounded and that they would provide useful guidance to the Board. Those respondents asked the Board to take the time to develop principles for reporting financial performance.

- (b) Some of them disagreed with the Board’s thinking and expressed alternative views:
- (i) Some of them disagreed with the binary split between the statement of profit or loss and OCI. They stated that instead of focussing on the distinction between profit or loss and OCI, the Board should develop coherent principles for presentation of information about financial performance that reflect the multi-faceted nature of an entity’s performance. These respondents tended to favour a one-statement approach to reporting financial performance.
 - (ii) Some of them agreed with the split between the statement of profit or loss and OCI but thought that the content of the statement of profit or loss should be driven by the entity’s business model and that the Board should not attempt to describe a primary ‘measure of performance’ that would suit all business models. These respondents tended to advocate a broader use of OCI than what the Board intended in the proposals.
 - (iii) Others suggested other ways to look at the distinction between the statement of profit or loss and OCI (for example, use OCI for all remeasurements) or argued that items included in OCI are not income and expenses and OCI does not provide information about financial performance.
20. The staff note that most accountancy bodies, accounting firms, academics and regulators who disagreed with the proposals did so because they thought that more guidance is necessary.

Feedback on individual questions in the Exposure Draft

Description of the statement of profit or loss

21. Many respondents commented on the proposals for the statement of profit or loss.
22. Some of those respondents broadly agreed with the proposals. Many of them agreed with the proposal that the statement of profit or loss is the primary source of

information about an entity’s performance for the period and that a total or subtotal should be required. Some of those respondents specifically stated that defining profit or loss is neither necessary nor feasible and that high level principles of the type proposed in the Exposure Draft are appropriate for the *Conceptual Framework*.

23. Other respondents asked the Board to positively ‘define profit or loss’ or/and to define financial performance. However, respondents who asked for those definitions meant different things, for example:

- (a) Some wanted the Board to define the total or subtotal for profit or loss, or net income. Some of those respondents stated that a definition was necessary to ensure discipline and in order for the Board to make consistent standard-setting decisions.
- (b) Others wanted the Board to better set the boundaries between the statement of profit or loss and OCI, for example by:
 - (i) discussing distinguishing characteristics of items of income and expense included in the statement of profit or loss and those included in OCI;
 - (ii) clarifying the objective(s) of those statements; or
 - (iii) defining the items included in those statements, or the total of those statements, as elements of financial statements.

24. Some of those respondents who requested a definition for profit or loss made suggestions about how the Board could define it, for example:

- (a) based on business model;
- (b) based on persistence of the items of income and expense and their predictive value;
- (c) based on the matching principle; or
- (d) based on whether the information is helpful in assessing stewardship.

Reporting items of income and expense in OCI

25. Many respondents disagreed with the proposed approach to reporting items of income and expense in OCI. Some respondents agreed or directionally agreed with the

Board’s proposed approach. Some respondents stated they are unable to conclude until the conceptual basis for the use of OCI is clarified.

26. The staff identified the following common themes in the comments made by respondents:
- (a) Many respondents stated that the proposed guidance is not sufficient and lacks a conceptual basis; in particular, some of them asked the Board to explain what is meant by enhancing the relevance of the statement of profit or loss. Many of those respondents disagreed with the Board’s proposals on this basis. However, some others stated they accept the proposals as a step forward.
 - (b) Some respondents, including both preparers and users of financial statements, advocated a wide use of OCI and expressed a concern that the proposed guidance was too restrictive. Those respondents tended to disagree with the Board’s proposed approach on that basis.
 - (c) Some other respondents from different backgrounds advocated limited or even exceptional use of OCI and expressed a concern that the proposed guidance, and in particular the reference to enhancing the relevance of the statement of profit or loss, is too open-ended and would not limit the future use of OCI. However, those respondents tended to agree with the spirit of the proposals to limit the use of OCI.
 - (d) Some respondents, mainly academics, accountancy bodies and standard-setters from Europe, Australia and New Zealand, advocated a single statement of performance and did not think that the binary split between the statement of profit or loss and OCI was appropriate. Those respondents tended to disagree with the proposals. They argued that an entity’s financial performance is multi-faceted and urged the Board to design an approach to presenting information about financial performance that is based on classification and disaggregation of income and expenses rather than a binary split.
 - (e) Some respondents from different backgrounds stated their view that income and expenses included in OCI are not a source of information about an

entity's performance, or that those items are not income and expenses.

Those respondents tended to disagree with the proposals and tended to view the statement of profit or loss as the only source of information about the entity's performance.

- (f) Some respondents made alternative suggestions about the types of income and expenses that can be included in OCI, for example:
 - (i) OCI should include all remeasurements of long-term items;
 - (ii) OCI should include all unrealised gains and losses;
 - (iii) the use of OCI should reflect an entity's business model;
 - (iv) OCI should serve as a 'linkage factor' between the statement of profit or loss and the statement of financial position;
 - (v) the use of OCI should not be based on measurement; rather, it should be used for revaluation of physical capital and for 'future' income and expenses whereas the statement of profit or loss should reflect the matching principle.
- (g) A few respondents, mainly preparers, thought that the guidance proposed in the Exposure Draft should not only be available to the Board in standard-setting but also to preparers in preparing financial statements. A few others, including regulators, a user of financial statements and a preparer, asked the Board to clarify in the *Conceptual Framework* that only the Board can require or permit an entity to include income and expenses in OCI.
- (h) A few respondents stated that guidance on including items of income and expense in OCI is too detailed for the *Conceptual Framework* and should ideally be addressed at Standards' level.

Recycling

Main themes on recycling

- 27. Many respondents provided feedback on the proposed rebuttable presumption for recycling and expressed the following views:
 - (a) About a half did not support the proposals:

- (i) Some argued that all OCI items should be recycled and any non-recycling should be dealt with in Standards as a departure from the *Conceptual Framework*;
 - (ii) Some argued that OCI items should never be recycled;
 - (iii) Some thought that some, but not all, OCI items should be recycled, and did not agree with the rebuttable presumption for recycling;
 - (iv) Some disagreed because in their view the Exposure Draft did not provide a conceptual basis for the proposed rebuttable presumption;
 - (v) A few stated that recycling should not be discussed in the *Conceptual Framework* but should be dealt with in Standards.
- (b) Many others supported the proposed rebuttable presumption. Some of them stated that in principle all OCI items should be recycled but agreed with the proposed rebuttable presumption. A few respondents stated that more work on reporting financial performance is needed but accepted the proposals for the time being.
- (c) Some stated that they cannot express a view until a better conceptual basis for reporting financial performance is provided.
- (d) A few reported mixed views on the proposals.
28. The staff note that a lot of support for recycling of some, or all, OCI items comes from the preparer community. Almost all preparers who commented on the proposals supported recycling; none of them opposed recycling. Other types of respondents expressed diverse views. Many accounting firms who commented on the proposals asked for more guidance on recycling.
29. In terms of geographical trends, the staff note that many respondents from Asia and Oceania and North America supported recycling of all OCI items or asked for more guidance on recycling.
30. In contrast, a lot of support for non-recycling of OCI items comes from Australia and New Zealand. Roughly a half of respondents from that region thought that OCI items

should not be recycled. Few respondents from that region supported recycling of all OCI items.

Detailed comments on recycling

31. Respondents who advocated recycling of all OCI items typically argued that:
 - (a) Recycling of all OCI items is consistent with the idea of the primacy of the statement of profit or loss;
 - (b) Recycling shows that a transaction has occurred and the gain or loss has been realised;
 - (c) Cumulative income and expenses included in the statement of profit or loss should equal cash flows;
 - (d) There should be no remaining balances in accumulated OCI;
 - (e) A basis for recycling can be always found.

32. Respondents who advocated recycling of some, but not all, OCI items broadly argued that the need for recycling depends on the nature of the item included in OCI, for example:
 - (a) Recycling of gains and losses on mismatched remeasurements such as cash flow hedges would enhance the relevance of the statement of profit or loss for the period;
 - (b) Recycling of actuarial gains and losses and cumulative translation adjustments would not enhance the relevance of that statement.

33. Respondents who opposed recycling argued that:
 - (a) Recycling of holding gains and losses distorts information about financial performance for the period;
 - (b) Recycling results in double counting of income and expenses;
 - (c) The timing of realisation is arbitrary and that could distort information about financial performance.

34. Respondents who supported recycling in some or all cases suggested that recycling should occur when:

- (a) Recycling would enhance the relevance of the statement of profit or loss for the period.
 - (b) The reason for including the item in OCI no longer applies.
 - (c) The gain or loss has been realised or the item has been released from risk.
35. Other comments on proposals for recycling included:
- (a) A rebuttable presumption is not appropriate for the *Conceptual Framework* and should be replaced with a neutral statement that recycling takes place when it enhances the relevance of the statement of profit or loss for the period.
 - (b) If no appropriate basis for recycling can be identified, the item should not be included in OCI.
 - (c) If no appropriate basis for recycling can be identified, that should not preclude the item from being included in OCI.