

STAFF PAPER

IASB Meeting

Project	Conceptual Framework		
Paper topic	Information about financial performance		
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Accounting Standards Advisory Forum, September 2016, Agenda paper 4D

This paper was discussed at the Board meeting in June 2016.

Purpose of paper

1. In April 2016, the Board tentatively decided:
 - (a) to provide high-level guidance on presenting information about financial performance in the *Conceptual Framework for Financial Reporting* (‘the *Conceptual Framework*’); and
 - (b) that such guidance would be based on the proposals in the Exposure Draft *Conceptual Framework for Financial Reporting* (‘the Exposure Draft’), modified in the light of the feedback received on the Exposure Draft.
2. This paper discusses high-level guidance on presenting information about financial performance that could be included in the *Conceptual Framework*, provides staff recommendations and asks the Board for decisions.

Structure of paper

3. This paper is structured as follows:
 - (a) staff recommendations (paragraph 4);
 - (b) describing the statement of profit or loss (paragraphs 5–24);

- (c) the use of other comprehensive income (OCI) (paragraphs 25–51); and
- (d) recycling (paragraphs 52–61).

Summary of staff recommendations

4. The staff recommend that the *Conceptual Framework* provides the following high-level guidance on presenting information about financial performance:
 - (a) describes the statement of profit or loss as the primary source of information about an entity's financial performance for the period but does not discuss the purpose of that statement;
 - (b) does not include a rebuttable presumption about the use of the statement of profit or loss but instead sets out a principle according to which all income and expenses should be included in that statement;
 - (c) explains that in rare circumstances the relevance or faithful representation of the information provided in the statement of profit or loss could be enhanced by excluding a change in the current value of an asset or a liability from that statement and including such a change in other comprehensive income (OCI);
 - (d) discusses that only the Board can make such a decision in setting Standards and that in making such a decision the Board would need to explain why excluding a change in the current value of an asset or a liability from the statement of profit or loss would enhance the relevance or faithful representation of the information provided in that statement;
 - (e) does not include a rebuttable presumption that income and expenses included in OCI in one period will be reclassified into the statement of profit or loss (recycled) in a future period but instead states that in principle income and expenses included in OCI should be recycled;
 - (f) explains that income and expenses included in OCI are recycled when doing so would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period;

- (g) explains that income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur, and explains that if no such basis can be identified that may indicate that such income or expenses should not be included in OCI; and
- (h) discusses that only the Board can decide in setting Standards whether and when income and expenses included in OCI should be recycled and that in making such a decision the Board would need to explain why recycling would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period.

Describing the statement of profit or loss

Proposals in the Exposure Draft

- 5. The Exposure Draft did not propose to define profit or loss. Instead, it proposed to describe the statement of profit or loss as the primary source of information about an entity's financial performance for the period. It also noted that the total or subtotal for profit or loss provides a highly summarised depiction of the entity's financial performance for the period.
- 6. The Exposure Draft also proposed that the purpose of the statement of profit or loss is to both:
 - (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.

Summary of feedback

- 7. Some respondents expressed the view that the proposed description of the statement of profit or loss is not sufficient and asked the Board to better describe or define profit or loss. Some respondents suggested how the Board could approach providing such a

definition. However, those suggestions were diverse and no consensus view emerged¹. In addition, respondents who asked the Board to provide a better description or definition of profit or loss often meant different things, for example:

- (a) some asked the Board to define the total or subtotal for profit or loss because in their view doing so would help to ensure discipline and consistency in Standard-setting;
 - (b) others asked the Board to better set the boundaries between the statements 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) defining the items included in those statements, or the totals of those statements, as elements of financial statements; or
 - (iii) clarifying the objective(s) of those statements.
8. Some respondents broadly agreed with the proposed description of profit or loss. Some of them 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*.
9. Some respondents, although only a few, expressed the view that the proposed guidance on the statement of profit or loss is too detailed for the *Conceptual Framework* and would be better placed at the Standards-level.
10. Some respondents expressed concerns about the proposed purpose of the statement of profit or loss. In particular, some stated that:
- (a) setting out an objective only for the statement of profit or loss but not for other statements, or notes to the financial statements, does not seem justified; and
 - (b) the use of the notion of ‘return’ in the description of the purpose of the statement of profit or loss is unhelpful because the term ‘return’ is undefined and unclear.

¹ See paragraph 24 of the March 2016 Agenda Paper 10K *Feedback summary—Information about financial performance*.

Staff analysis and recommendation

11. This section discusses:
- (a) defining profit or loss (paragraphs 12–15);
 - (b) profit or loss as the primary source of information about financial performance (paragraphs 16–20); and
 - (c) the purpose of the statement of profit or loss (paragraphs 21–24).

Defining profit or loss

12. Feedback received on the proposals for the statement of profit or loss in the Exposure Draft is largely consistent with the feedback received by the Board on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (‘the Discussion Paper’) in that some respondents continue to ask the Board to better describe or define profit or loss in the *Conceptual Framework*. However, no consensus view has emerged as to how that could be done.
13. The Board has already considered those requests while developing the proposals for the Exposure Draft. Paragraph BC7.34 of the Basis for Conclusions on the Exposure Draft states:
- The IASB noted that respondents to the Discussion Paper and others have consistently asked the IASB to define, or better describe, profit or loss or OCI or to define financial performance. However, the IASB’s previous work on presentation and disclosure, as well as its work in developing the Discussion Paper, has shown that no single characteristic can be used to separate items of income and expenses usefully into two clear-cut categories, with all items within one category sharing the same characteristic. [...] The conclusion that income and expenses cannot be divided consistently into two categories in a manner that would provide useful information is also consistent with the idea that there are many facets of an entity’s financial performance.
14. Paragraph BC7.41 of the Basis for Conclusions on the Exposure Draft further states:

The IASB acknowledges that merely describing the statement of profit or loss would be unlikely to satisfy those who asked for a definition of 'profit or loss'. However [...], the IASB did not think that a robust and appropriate definition of profit or loss would be feasible for the *Conceptual Framework*.

15. The staff consider that the feedback received on the Exposure Draft has not provided the Board with any new insights that could lead the Board to reconsider its previous position. Accordingly, the staff continue to think that the Board should not attempt to define profit or loss in the *Conceptual Framework*.

Profit or loss as the primary source of information about financial performance

16. Some respondents to the Exposure Draft supported describing the statement of profit or loss as the primary source of information about an entity's financial performance for the period, and stated that such a description represents a step forward in the debate on reporting financial performance.
17. The staff agree with those respondents. The staff note that the existing *Conceptual Framework* contains no guidance for the Board in making decisions about presentation of income and expenses. The proposed description of the statement of profit or loss would, in the staff's view, provide an important anchor for the Board in making Standard-setting decisions requiring the Board to use profit or loss more consistently as the default location for income and expenses.
18. In addition, as discussed in paragraph 7.39 of the Basis for Conclusions on the Exposure Draft, the proposed description of the statement of profit or loss is consistent with how that statement is used in practice. That is, many users of financial statements incorporate the total or subtotal for profit or loss in their analysis, either as a starting point or as the main indicator of an entity's financial performance.
19. The staff note that respondents who did not support that description did not provide arguments that the Board has not already considered in the past. For example, some respondents expressed the view that the statement of profit or loss is the only, rather than the primary, source of information about an entity's financial performance for the period. However, the Board has consistently held the view that both the statement of

profit or loss and OCI provide information about an entity's financial performance.

Paragraph 7.40 of the Basis for Conclusions on the Exposure Draft states:

[...] the Exposure Draft emphasises that the statement of profit or loss is not the only source of information about an entity's financial performance for the period. An in-depth understanding of performance requires an analysis of all recognised income and expenses (including income and expenses included in OCI), as well as other information included in the financial statements.

20. Accordingly, the staff recommend that the Board confirms its proposal to describe the statement of profit or loss in the *Conceptual Framework* as the primary source of information about an entity's financial performance for the period.

The purpose of the statement of profit or loss

21. The staff acknowledge the concerns noted in paragraph 10 about setting out an objective for the statement of profit or loss only but not for other statements or notes to the financial statements. The staff think that the Board's intention in discussing the purpose of profit or loss in the Exposure Draft (see paragraph 6) was not to single out that statement from the other statements and notes that comprise general purpose financial statements. Rather, that discussion was proposed in response to some commentators on the Discussion Paper who argued that that the Board should decide whether the objective of the statement of profit or loss is *just* to provide information about the transactions and events that have occurred during the period or *just* to provide information that is helpful in assessing the prospects for future cash flows. Those respondents further argued that a single objective that focuses either on providing information about transactions and events for the period or prospects for future cash flows could help the Board distinguish income and expense that should be included in the statement of profit or loss from those that could be included in OCI. For example, they stated that a focus on transactions and events during the period could support a distinction that is based on realisation, whereas a focus on assessing the prospects for future cash flows could support a distinction based on the predictive value of income and expenses.

22. Accordingly, in discussing the purpose of the statement of profit or loss, the Board intended to emphasise that information provided in that statement has both confirmatory and predictive value and that it would not be appropriate to use the notion of realisation or predictive value of income and expenses as the basis for determining whether income and expenses should be included in the statement of profit or loss or OCI.
23. However, the staff consider that the proposed purpose of the statement of profit or loss:
- (a) largely reiterates the objective of general purpose financial reporting and therefore, in the staff's view, is unnecessary;
 - (b) could equally apply to the statement (or section) of OCI; and
 - (c) created confusion (particularly the reference to 'return') and was not supported by some respondents to the Exposure Draft.
24. Accordingly, the staff think that the purpose of the statement of profit or loss should not be discussed in the *Conceptual Framework*. The staff consider that excluding that discussion would also be consistent with the Board's tentative decision to provide high-level guidance on presenting information about financial performance in the *Conceptual Framework*.

Question 1 for the Board

Does the Board agree with the staff recommendations that the *Conceptual Framework*:

- (a) should describe the statement of profit or loss as the primary source of information about an entity's financial performance for the period; and
- (b) should not discuss the purpose of the statement of profit or loss?

The use of OCI

Proposals in the Exposure Draft

25. The Exposure Draft proposed that income and expenses in the statement(s) of performance are classified into either the statement of profit or loss or OCI. 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.
26. The Exposure Draft further proposed to describe the types of income and expenses for which this presumption cannot be rebutted as follows:
- (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.
27. The Exposure Draft also proposed providing an example of when income and expenses would be included in OCI. That would be the case 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 (hereinafter referred to as ‘dual measurement’).

Summary of feedback

28. Many respondents expressed a concern that the proposed guidance on when income and expenses could be included in OCI is not sufficient or lacks a conceptual basis. However, some respondents stated that the proposals represent a step forward and supported the proposals on that basis. A few respondents expressed a view that the proposed guidance is too detailed for the *Conceptual Framework*.
29. Some respondents did not support the focus on the distinction between the statement of profit or loss and OCI. They argued that an entity’s financial performance is multi-faceted and that the Board should consider classification and disaggregation of income and expenses comprehensively rather than focus on the binary distinction between the statement of profit or loss and OCI. Those respondents tended to support a single statement of performance.
30. Some other respondents expressed the view that income and expenses included in OCI do not provide information about financial performance, or that items included in OCI are not income and expenses. Those respondents argued income and expenses included in the statement of profit or loss are the only, rather than the primary, source of information about an entity’s financial performance for the period.
31. Some respondents disagreed with including a rebuttable presumption on the use of the statement of profit or loss in the *Conceptual Framework* and suggested that the rebuttable presumption should be replaced by a principle. They argued that rebuttable presumptions could be appropriate for Standards but not for the *Conceptual Framework*.
32. Some respondents asked the Board to explain what is meant by ‘enhancing the relevance of the statement of profit or loss’. Some respondents suggested that in presenting information about financial performance the Board should also consider faithful representation of information provided in the statement of profit or loss. Most respondents did not object to the proposal that changes in current values of assets and liabilities could be included in OCI. However, some respondents advocated a broader

use of OCI and found the proposals too restrictive; others advocated a narrower use of OCI and found the proposals too open-ended. Some respondents commented on the use of OCI for dual measurement and expressed mixed views. Some of those respondents supported the use of OCI for dual measurement, others did not support using different measurement bases for the statement of financial position and the statement of profit or loss. Some respondents made alternative suggestions about the types of income and expenses that could be included in OCI. However, those suggestions were diverse and no consensus view emerged².

33. A few respondents thought that preparers should also be permitted to apply the guidance proposed in the Exposure Draft and decide when income or expenses should be included in OCI. Conversely, few others 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.

Staff analysis and recommendation

34. This section discusses:
- (a) Classifying income and expenses (paragraphs 35–38);
 - (b) Rebuttable presumption on the use of the statement of profit or loss (paragraphs 39–41);
 - (c) Enhancing the usefulness of the statement of profit or loss (paragraphs 42–47); and
 - (d) Types of income and expenses that could be included in OCI (paragraphs 48–51).

Classifying income and expenses

35. Some respondents expressed the view that an entity's financial performance is multi-faceted and therefore the focus on the distinction between the statement of profit or loss and OCI is not helpful. Instead, those respondents suggested that the Board

² See paragraph 26(f) of the March 2016 Agenda Paper 10K *Feedback summary—Information about financial performance*.

should address presentation, classification, disaggregation and subtotals in the statement(s) of financial performance more comprehensively.

36. The staff note that the Exposure Draft already discussed the use of the statement of profit or loss and OCI as an example of classification. The broader questions about presentation and classification of information in the financial statements will be considered by the Board comprehensively in its research project *Primary Financial Statements*. However, the staff think that the discussion about classification of income and expenses in the *Conceptual Framework* can be improved to avoid any perceived undue focus on the binary distinction between the statement of profit or loss and OCI. That could also help to emphasise that both the statement of profit or loss and OCI provide information about an entity's financial performance for the period.
37. In particular, the *Conceptual Framework* could emphasise that financial performance is multi-faceted and that this is reflected in the different types of income and expenses recognised by the entity (Agenda Paper 10B discusses different types of income and expenses). The *Conceptual Framework* could also state that the relevance or faithful representation of information provided in the statement(s) of financial performance is enhanced by disaggregating and classifying income and expenses. Including income and expenses in the statement of profit or loss and OCI is one way to classify income and expenses.
38. The staff think that such a discussion would provide an improved context for the discussion about classifying income and expenses into the statement of profit or loss and OCI and would reduce the perceived undue focus on the distinction between profit or loss and OCI.

Rebuttable presumption on the use of the statement of profit or loss

39. The staff acknowledge the concern noted in paragraph 31 about including rebuttable presumptions in the *Conceptual Framework*. The staff think that the Board's intention in proposing a rebuttable presumption that income and expenses are included in the statement of profit or loss was to emphasise that the statement of profit or loss is a default location for income and expenses and that the use of OCI should be rare. A similar principle was suggested in the Discussion Paper according to which all income and expenses would be recognised in the statement of profit or loss unless

recognising an item in OCI enhances the relevance of the statement of profit or loss for that period. However, the Board was concerned that the principle was not understood by respondents. Accordingly, to clarify its intention the Board decided to instead propose a rebuttable presumption on the use of the statement of profit or loss.

40. However, the staff agree with those respondents who argue that rebuttable presumptions are not appropriate for the *Conceptual Framework*. Those respondents stated that the notion of a ‘rebuttable presumption’ is commonly associated with detailed requirements of specific Standards whereas the role of the *Conceptual Framework* is to set out the underlying concepts for financial reporting. Some also stated that, in their view, a rebuttable presumption is weaker than a principle which could undermine the idea of the primacy of the statement of profit or loss.
41. The staff think that the Board’s intention to indicate that the use of OCI should be rare could be achieved by replacing the rebuttable presumption on including income and expenses in the statement of profit or loss by a principle to that effect *and* including an explicit statement that the use of OCI is rare. Accordingly, the staff recommend that the *Conceptual Framework* sets out a principle—rather than a rebuttable presumption—according to which all income and expenses should be included in the statement of profit or loss. The use of OCI is discussed in the following sections.

Enhancing the usefulness of the statement of profit or loss

42. In discussing income and expenses that could be included in OCI, the staff continue to think that there is no single characteristic, or a set of characteristics, that could be used to determine when income and expenses should be included in OCI. The staff note that the feedback on the Exposure Draft did not suggest any new ways to think about characteristics of income and expenses. Accordingly, the staff continue to think that the Board would need to apply judgement in deciding when income and expenses could or should be included in OCI.
43. The Exposure Draft proposed that the main anchor for the Board in making that decision should be whether excluding income and expenses from the statement of profit or loss would enhance the relevance of that statement. Some respondents suggested that in making that decision the Board should also consider faithful representation of the information about income and expenses.

44. The staff agree with those comments and note that such an approach would be consistent with the general discussion about classification proposed in the Exposure Draft. In particular, paragraph 7.8 of the Exposure Draft proposed:
- [...] Efficient and effective communication of [...] information [about recognised assets, liabilities, equity, income and expenses] improves its relevance and contributes to a faithful representation of the assets, liabilities, equity, income and expenses.
45. In addition, the staff think that the reference to faithful representation as an anchor for the use of OCI could be particularly appropriate in some circumstances. For example, in the staff's view, including in OCI gains and losses on cash flow hedges affects both the relevance and faithful representation of the information in the statement of profit or loss. This is because changes in the fair value of the hedging instrument are economically linked to the hedged item. Accordingly, including those changes in the statement of profit or loss without also including the effects of the hedged transaction would result in incomplete and misleading information about the entity's performance. Similarly, in the staff's view, including in the statement of profit or loss changes in fair value attributable to changes in the issuer's own credit risk for financial liabilities designated at fair value through profit or loss would decrease both the relevance and faithful representation of the information in that statement. That is because entities do not generally realise those changes in fair value.
46. Accordingly, the staff recommend that the *Conceptual Framework* explain that in rare circumstances the relevance or faithful representation of the information provided in the statement of profit or loss could be enhanced by excluding particular income and expenses from that statement and including those items in OCI.
47. The Basis for Conclusions on the Exposure Draft explained that only the Board can make decisions on the use of OCI in setting Standards. However, the staff note that some respondents were unclear whether that was the case or stated that including such an explanation only in the Basis for Conclusions was not sufficient. Accordingly, the staff recommend that the *Conceptual Framework* clarifies that only the Board can make a decision on the use of OCI when developing Standards and that in making such a decision the Board would need to explain why doing so would enhance the

relevance or faithful representation of the information provided in the statement of profit or loss.

Types of income and expenses that could be included in OCI

48. The Exposure Draft proposed that income and expenses could only be included in OCI if they arise from a change in the current value of an asset or a liability. The staff note that this particular proposal did not give rise to concerns. Some respondents argued that the use of OCI should be broader than proposed in the Exposure Draft and, for example, *all* changes in current values of assets and liabilities should be included in OCI. However, only a few respondents disagreed that the *type* of income and expenses that could be included in OCI are those that arise from changes in current values of assets and liabilities.
49. Accordingly, the staff recommend that the Board should confirm that only a change in the current value of an asset or a liability could be included in OCI.
50. The Exposure Draft also proposed including an example of dual measurement as one circumstance where income and expenses would be included in OCI. As noted in paragraph 32, the feedback on that proposal was mixed. In addition, a few respondents expressed a view that the proposed guidance on the use of OCI includes too much Standards-level detail and is inconsistent with the role of the *Conceptual Framework* and with the judgemental nature of the decisions about the use OCI.
51. The staff consider that the discussion about dual measurement in the presentation chapter of the Exposure Draft effectively reiterated the discussion in paragraphs 6.76-6.77 of the measurement chapter and therefore is not necessary. Accordingly, in the light of the feedback received on the proposals, the staff recommend that the dual measurement example is not included in the presentation chapter. That would also be consistent with the Board's decision to provide high-level guidance on reporting financial performance in the *Conceptual Framework*.

Question 2 for the Board

Does the Board agree with the staff recommendation that the *Conceptual Framework*:

- (a) does not include a rebuttable presumption about the use of the statement of profit or loss but instead sets out a principle according to which all income and expenses should be included in that statement;
- (b) explains that in rare circumstances the relevance or faithful representation of the information provided in the statement of profit or loss could be enhanced by excluding a change in the current value of an asset or a liability from that statement and including such a change in OCI; and
- (c) discusses that only the Board can make such a decision in setting Standards and that in making such a decision the Board would need to explain why excluding a change in the current value of an asset or a liability from the statement of profit or loss would enhance the relevance or faithful representation of the information provided in that statement?

Recycling

Proposals in the Exposure Draft

52. 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, 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.

Summary of feedback

53. Respondents expressed mixed views about the proposed rebuttable presumption for recycling.
- (a) About a half of the respondents 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; those respondents broadly argued that the need for and the timing of recycling depends on the nature of the item included in OCI;
 - (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.
54. Some respondents expressed a view that rebuttable presumptions are inappropriate for the *Conceptual Framework*. Instead, they argued that the rebuttable presumption on recycling should be replaced by a principle.
55. Some stated that they cannot express a view until a better conceptual basis for reporting financial performance is provided. A few respondents stated that more work on reporting financial performance is needed but accepted the proposals for the time being.
56. Some respondents argued that if no appropriate basis for recycling can be identified, the item should not be included in OCI. Others argued that if no appropriate basis for recycling can be identified, that should not preclude the item from being included in OCI.

Staff analysis and recommendation

57. The staff note that the feedback received by the Board on recycling has consistently been mixed and reflected the diverse views on the use of OCI in general. However,

most interested parties agree that some or all income and expenses included in OCI should be recycled to the statement of profit or loss in a subsequent period. At the same time, as noted in paragraph 40, the staff agree with those respondents who argue that rebuttable presumptions are not appropriate for the *Conceptual Framework* and should be replaced by principles. Accordingly, consistent with the staff recommendation on the use of OCI in paragraph 41, the staff think that the rebuttable presumption on recycling should be replaced by a principle about recycling of income and expenses. The staff continue to think that in principle income and expenses included in OCI should be recycled. That is consistent with describing the statement of profit or loss as the primary source of information about an entity's financial performance for the period.

58. The staff think that the principle for recycling of income and expenses should be articulated in a manner that is consistent with the principle for the use of OCI. As discussed in paragraph 44 and consistent with feedback on the Exposure Draft received from some respondents, the staff think that the Board should consider both the relevance and faithful representation of the information about income and expenses. Accordingly, the staff recommend that the *Conceptual Framework* include a principle according to which income and expenses included in OCI are recycled when doing so enhances the relevance or faithful representation of the information in the statement of profit or loss for that period.
59. Respondents expressed mixed views about the proposals that:
 - (a) income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur; and
 - (b) if no such basis can be identified that may indicate that the income or expenses should not be included in OCI.
60. However, the staff think that the Board should confirm those proposals. This is because:
 - (a) respondents did not propose any new compelling arguments for why those proposals were not appropriate; rather, their views tended to reflect their

general view on whether OCI items should always, sometimes or never be recycled; and

- (b) setting out a general principle that income and expenses included in OCI should be recycled would, in the staff's view, increase the prominence of recycling in the *Conceptual Framework* compared to the proposed rebuttable presumption. That would make it more important to also emphasise that the lack of the basis for recycling may indicate that income and expenses should not be included in OCI in the first place.

61. Finally, as discussed in paragraph 33, the staff note that some respondents thought that it was not clear whether the decisions about the use of OCI could only be made by the Board. Accordingly, consistent with the staff recommendation on the use of OCI in paragraph 47, the staff recommend that the *Conceptual Framework* should clarify that only the Board can decide in setting Standards whether and when income and expenses included in OCI should be recycled. In making such a decision the Board would need to explain why recycling would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period.

Question 3 for the Board

Does the Board agree with the staff recommendations that the *Conceptual Framework*:

- (a) does not include a rebuttable presumption that income and expenses included in OCI in one period will be reclassified into the statement of profit or loss (recycled) in a future period but instead states that in principle income and expenses included in OCI should be recycled;
- (b) explains that income and expenses included in OCI are recycled when doing so would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period;
- (c) explains that income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur, and explains that if no such basis can be identified that may indicate that such income or expenses should not be included in OCI; and

(d) discusses that only the Board can decide in setting Standards whether and when income and expenses included in OCI should be recycled and that in making such a decision the Board would need to explain why recycling would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period?