
IASB[®] meeting

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Project **Primary Financial Statements**

Topic **Other comprehensive income**

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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Objective

1. This paper addresses feedback on the proposal in the Exposure Draft *General Presentation and Disclosures* to relabel the two categories of other comprehensive income.

Summary of staff recommendations in this paper

2. The staff recommend the IASB withdraw the proposal to relabel the two categories of other comprehensive income as:
 - (a) remeasurements permanently reported outside profit or loss; and
 - (b) income and expenses to be included in profit or loss in the future when specific conditions are met.

Structure of the paper

3. This paper is structured as follows:
 - (a) background (paragraphs 4–11):
 - (i) proposals in the Exposure Draft (paragraphs 4–6); and
 - (ii) feedback on the proposals in the Exposure Draft (paragraphs 7–11).
 - (b) staff analysis and recommendations (paragraphs 12–17).

Background

Proposals in the Exposure Draft

4. Paragraph 82A of IAS 1 Presentation of Financial Statements states:

The other comprehensive income section shall present line items for the amounts for the period of:

 - (a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other IFRSs:
 - (i) will not be reclassified subsequently to profit or loss; and
 - (ii) will be reclassified subsequently to profit or loss when specific conditions are met.
 - (b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other IFRSs:
 - (i) will not be reclassified subsequently to profit or loss; and

- (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

5. Paragraph BC14 of the Basis for Conclusions on the Exposure Draft explains that the IASB decided not to reconsider when income or expenses should be reported in other comprehensive income or when such items should be reclassified to the statement of profit or loss. It had already considered this topic as part of its *Conceptual Framework for Financial Reporting (Conceptual Framework)*. However, the Exposure Draft included proposals designed to improve the communication of information about income and expenses included in other comprehensive income. In particular, the Exposure Draft proposed creating more descriptive labels for the two categories of other comprehensive income. Paragraph 74 of the Exposure Draft states:

[IAS 1.82A partial] An entity shall classify income and expenses included in the statement presenting comprehensive income in the following categories:

- (a) remeasurements permanently reported outside profit or loss; and
- (b) income and expenses to be included in profit or loss in the future when specific conditions are met.

6. Paragraph BC117 of the Basis for Conclusions on the Exposure Draft explains the rationale for this proposal. It states:

IAS 1 requires income and expenses included in other comprehensive income to be categorised into income and expenses that may be reclassified (recycled) to profit or loss in subsequent periods and items that are permanently reported outside profit or loss and will not be reclassified. This creates two categories of income and expenses included in other comprehensive income. To increase the understandability of amounts included in other comprehensive income, the IASB proposed to create more descriptive labels for these two categories of other comprehensive income. [...]

Feedback on the proposals in the Exposure Draft

7. The Exposure Draft did not specifically ask about the proposed change in labelling of the two categories of the other comprehensive income section, but a few respondents commented and expressed their disagreement with the proposal.
8. A few respondents suggested that the proposal would not improve how information is communicated. These respondents said:
 - (a) the proposed labels are inconsistent—the labels refer to items permanently reported outside profit or loss as ‘remeasurements’, and refer to items to be included in profit or loss in the future when specific conditions are met as ‘income and expenses’;
 - (b) the term ‘remeasurements’ is not defined and can be misunderstood;
 - (c) the proposed labels could suggest that all income and expenses that are not remeasurements are always reclassified to profit or loss.
9. One respondent said the proposed label ‘income and expenses to be included in profit or loss in the future when specific conditions are met’ could change the categorisation of items between the two categories. The respondent said the proposed category could capture items of other comprehensive income that, in accordance with IFRS 9 *Financial Instruments* are removed from the cashflow hedge reserve and included directly in the initial cost of a non-financial asset. This is because the asset will eventually affect profit or loss in the future through depreciation, impairments etc.
10. One respondent said the proposed labels are complex and unclear. The respondent asked whether entities can, applying paragraph 12 of the Exposure Draft,¹ use other labels to describe the two categories of other comprehensive income.

¹ Paragraph 12 of the Exposure Draft states:

[IAS 1.8] Although this [draft] Standard uses terms such as ‘other comprehensive income’, ‘profit or loss’ and ‘total comprehensive income’, an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term ‘net income’ to describe profit or loss.

11. A few respondents, mainly standard-setting bodies, suggested conducting a fundamental review of other comprehensive income with the objective of providing clarity on how it differs from profit or loss. These respondents also suggested revisiting requirements in other IFRS Accounting Standards with respect to the recognition of income and expenses in other comprehensive income. Some of those respondents suggested doing this work as a separate project so as not to add further complexity to this project.

Staff analysis and recommendations

12. For reasons considered by the IASB in developing the Exposure Draft (see paragraph 5 of this paper), we continue to recommend that the IASB not reconsider when income or expenses should be reported in other comprehensive income or when such items should be reclassified to profit or loss. In addition, stakeholders raised similar matters during the IASB's *Third Agenda Consultation*. However, after considering the feedback, the IASB decided not to add such a project to its work plan.
13. As explained in paragraphs 5-6 of this paper, the proposed change in labelling of the two categories of the other comprehensive income section was intended to improve the communication of information about income and expenses included in other comprehensive income. While the Exposure Draft did not ask a specific question on this proposal and only a few respondents commented on it, the feedback suggests that the proposed changes might not meet those objectives and could have unintended consequences which could reduce the clarity.
14. In particular, replacing the references to 'items of other comprehensive income' and 'reclassified subsequently to profit or loss' in paragraph 82A of IAS 1 (see paragraphs 4-5 of this paper) could unintentionally affect the presentation of items in other comprehensive income:
 - (a) using the term 'remeasurements' to identify one category and 'income and expenses' to identify the other could create confusion as to whether 'remeasurements' include items that are not 'income and expenses' or whether

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- all ‘income and expenses’ other than remeasurements should be reclassified to profit or loss.
- (b) the term ‘remeasurement’ is not defined. Nonetheless, a few IFRS Accounting Standards use the term and its variations while requiring entities to reflect changes in the current values of their assets or liabilities. However, not all of those changes are required to be recognised in the statement of financial performance. For example, paragraph 39 of IFRS 16 *Leases* requires entities to ‘remeasure’ the lease liability to reflect changes in lease payments and to recognise such remeasurements as an adjustment to the right-of-use asset.
- (c) further, replacing the phrase ‘reclassified subsequently to profit or loss’ may not enhance the understandability of other comprehensive income. On the contrary, it could create confusion. This is because the phrase and its variations are used frequently in other IFRS Accounting Standards to specify whether and when amounts previously included in other comprehensive income are recognised in profit or loss. For example, paragraph B5.7.1A of IFRS 9 states that when financial assets measured at fair value through other comprehensive income are derecognised, cumulative gains or losses previously recognised in other comprehensive income are *reclassified to profit or loss*.
15. The objective of the proposed labels was to enhance the understandability of items in the other comprehensive income section. However, removing references to the term - ‘other comprehensive income’ may decrease understandability and is not in line with the IASB’s decision not to remove that term, or to use a different term in the *Conceptual Framework for Financial Reporting* as doing so could be confusing (see paragraph 7.8 of the Basis for Conclusions on the *Conceptual Framework*).
16. Having reflected on the feedback, we think it is unnecessary to change the labelling of the two categories of other comprehensive income. We note that applying paragraph

12 of the Exposure Draft,² an entity would be able to use other labels to describe the two categories of other comprehensive income as long as the meaning is clear.

Staff recommendation

17. Based on our analysis, we recommend the IASB withdraw the proposal to relabel the two categories of other comprehensive income as:
- (a) remeasurements permanently reported outside profit or loss; and
 - (b) income and expenses to be included in profit or loss in the future when specific conditions are met.
18. This recommendation would mean the wording of paragraphs 74 and 75 of the Exposure Draft in the Accounting Standard would be amended as follows:
- 74 An entity shall classify income and expenses included in the statement presenting comprehensive income in the following categories:
- (a) ~~remeasurements permanently reported outside~~ items of other comprehensive income that will not be reclassified subsequently to profit or loss; and
 - (b) ~~income and expenses to be included in~~ items of other comprehensive income that will be reclassified subsequently to profit or loss ~~in the future~~ when specific conditions are met.
- 75 An entity shall, in each of the categories of the statement presenting comprehensive income, present line items for:

² Paragraph 12 of the Exposure Draft states:

[IAS 1.8] Although this [draft] Standard uses terms such as ‘other comprehensive income’, ‘profit or loss’ and ‘total comprehensive income’, an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term ‘net income’ to describe profit or loss.

- (a) the share of other comprehensive income of associates and joint ventures accounted for using the equity method, ~~presenting separately:~~
 - i. ~~integral associates and joint ventures; and~~
 - ii. ~~non-integral associates and joint ventures; and~~
- (b) other items of other comprehensive income ~~classified by their nature.~~

Questions for the IASB

1. Does the IASB agree with the staff recommendation to withdraw the proposal to relabel the two categories of other comprehensive income as:
 - (a) remeasurements permanently reported outside profit or loss; and
 - (b) income and expenses to be included in profit or loss in the future when specific conditions are met?