

May 2010

Exposure Draft ED/2010/5

Presentation of Items of Other Comprehensive Income

Proposed amendments to IAS 1

Comments to be received by 30 September 2010



International
Accounting Standards
Board®

Exposure Draft

Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)

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ED/2010/5

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CONTENTS

INTRODUCTION

INVITATION TO COMMENT

***PRESENTATION OF ITEMS OF
OTHER COMPREHENSIVE INCOME
(PROPOSED AMENDMENTS TO IAS 1)***

AMENDMENTS TO IAS 1

APPENDIX

Amendments to other IFRSs

Proposed amendments to guidance on implementing IAS 1

***APPROVAL OF PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME
BY THE BOARD***

BASIS FOR CONCLUSIONS

Introduction

The International Accounting Standards Board has published this exposure draft of proposed amendments to IAS 1 *Presentation of Financial Statements* to improve the presentation of items of other comprehensive income (OCI). The Board has developed the proposals having considered responses to its discussion paper *Preliminary Views on Financial Statement Presentation*, published in October 2008. The Board's objective is to make targeted improvements to the presentation of profit or loss and of other items of comprehensive income by the end of 2010.

The IASB and the US Financial Accounting Standards Board (FASB) are working jointly on the proposed amendments. However, the boards will publish their proposed amendments separately. With these proposals the FASB will be eliminating options for the presentation of OCI that the IASB eliminated in 2007.

The IASB also proposes to change the title of the statement of comprehensive income to the 'statement of profit or loss and other comprehensive income' when it refers to it in IFRSs and other publications. IAS 1 already permits entities to use other titles and that flexibility will remain.

Presentation of other comprehensive income

At present entities have an option in IAS 1 to present either a statement of comprehensive income or two separate statements of profit or loss and other comprehensive income. This exposure draft proposes to require a statement of profit or loss and other comprehensive income containing two distinct sections—profit or loss and items of other comprehensive income.

The exposure draft also proposes a new presentation approach for items of OCI. With recent decisions in other projects, more items will be presented in OCI. IFRS 9 and the proposed amendments to IAS 19 have introduced new items that will be presented in OCI. The remaining phases of the financial instruments project may also add items that will be presented in OCI.

The Board is proposing to require that items that will never be recognised in profit or loss should be presented separately from those that are subject to subsequent reclassification (recycling).

These proposals are designed to make it easier for users of an entity's financial statements to understand all non-owner changes in equity. They are also intended to help users to assess the relevance of individual income and expense items presented in OCI and to assess the potential effects that some OCI items may have on profit or loss.

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The Board has no plans to eliminate profit or loss as a measure of performance. Profit or loss will still be presented clearly and will remain the required starting point for the calculation of earnings per share.

Next steps

The Board will consider the comments it receives on the proposals and decide whether or how to proceed with an amendment to IAS 1.

Invitation to comment

The Board invites comments on the proposals in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative the Board should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant comment.

In this exposure draft, the Board is not requesting comments on matters in IAS 1 not addressed in the exposure draft.

Comments should be submitted in writing so as to be received no later than 30 September 2010.

*refer to
paragraphs*

Statement of profit or loss and other comprehensive income

Question 1

The Board proposes to change the title of the statement of comprehensive income to 'Statement of profit or loss and other comprehensive income' when referred to in IFRSs and its other publications. Do you agree? Why or why not? What alternative do you propose? 10, BC21

Question 2

The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections—profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable. Do you agree? Why or why not? What alternative do you propose? 12, 81, BC17–BC19

Presentation of items of other comprehensive income

Question 3

The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss. Do you support this approach? Why or why not? What alternative do you propose, and why? 82A, BC25 and BC26

Question 4

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax. Do you support this proposal? Why or why not? What alternative do you propose and why? 91, BC27–BC29

Benefits and costs

Question 5

In the Board's assessment:

BC32-BC36

- (a) the main benefits of the proposals are:
 - (i) presenting all non-owner changes in equity in the same statement.
 - (ii) improving comparability by eliminating options currently in IAS 1.
 - (iii) maintaining a clear distinction between profit or loss and items of other comprehensive income.
 - (iv) improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss.
- (b) the costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments.

Do you agree with the Board's assessment? Why or why not?

Other comments

Question 6

Do you have any other comments on the proposals?

**[Draft] Amendments to
IAS 1 *Presentation of Financial Statements***

Paragraph 7 is amended (new text is underlined).

Notes contain information in addition to that presented in the statement of financial position, statement of profit or loss and other comprehensive income, ...

Paragraph 12 is deleted. Paragraph 10, the headings above paragraphs 81 and 82 and paragraphs 81, 82 and 83 are amended (new text is underlined and deleted text is struck through). Paragraphs 82A and 82B are added and paragraph 84 is deleted.

Complete set of financial statements

10 A complete set of financial statements comprises:

...

(b) a statement of profit or loss and other comprehensive income for the period;

...

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

12 ~~[Deleted] As permitted by paragraph 81, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an income statement is presented it is part of a complete set of financial statements and shall be displayed immediately before the statement of comprehensive income.~~

Statement of profit or loss and other comprehensive income

81 ~~An entity shall present all items of income and expense recognised in a period:~~

(a) ~~in a single statement of comprehensive income, or~~

- (b) ~~in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).~~

81 A statement of profit or loss and other comprehensive income shall be presented in two sections:

- (a) profit or loss; and
(b) other comprehensive income.

Information to be presented in the statement of profit or loss and other comprehensive income

82 As a minimum, the profit or loss section of the statement of profit or loss and other comprehensive income shall include line items that present the following amounts for the period:

- (a) revenue;
- (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;
- (b) finance costs;
- (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);
- (d) tax expense;
- (e) ~~a single amount comprising the total of:~~
- (i) ~~the post-tax profit or loss of discontinued operations and~~
- (ii) ~~the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;~~
- (e) a single amount for the total of discontinued operations (see IFRS 5); and
- (f) profit or loss,;
- (g)-(i) ~~[deleted]~~

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

- ~~(g) each component of other comprehensive income classified by nature (excluding amounts in (h));~~
 - ~~(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and~~
 - ~~(i) total comprehensive income.~~
- 82A As a minimum, the other comprehensive income section shall include line items that present the following amounts for the period:
- (a) items of other comprehensive income grouped into those that, in accordance with other IFRSs:
 - (i) will be reclassified subsequently to profit or loss when specific conditions are met, and
 - (ii) will not be reclassified subsequently to profit or loss.
 - (b) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and
 - (c) total other comprehensive income.
- 82B The statement shall also display the total of profit or loss and other comprehensive income.
- 83 An entity shall disclose the following items in the statement of profit or loss and other comprehensive income as allocations for the period:
- (a) profit or loss for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.
 - (b) comprehensive income for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.
- 84 ~~[Deleted] An entity may present in a separate income statement (see paragraph 81) the line items in paragraph 82(a)–(f) and the disclosures in paragraph 83(a).~~

In paragraphs 85–87, 100 and 115 the references to ‘the separate income statement (if presented)’ are deleted and ‘statement of comprehensive income’ is replaced with ‘statement of profit or loss and other comprehensive income’.

In paragraphs 90 and 94 'statement of comprehensive income' is replaced with 'statement of profit or loss and other comprehensive income'. Paragraph 91 is amended (new text is underlined and deleted text is struck through). Paragraph 139G is added.

- 91 An entity may present ~~items~~ components of other comprehensive income either:
- (a) net of related tax effects, or
 - (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

If an entity elects alternative (b) above, then it must allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.

- 139G *Presentation of Items of Other Comprehensive Income* (amendments to IAS 1), issued in [date], amended the terminology used throughout IFRSs. In addition it amended paragraphs 10, 82, 83 and 91, added paragraphs 81A, 82A and 82B, and deleted paragraphs 12, 81 and 84. An entity shall apply those [draft] amendments for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted.

Appendix

Amendments to other IFRSs

The amendments described in this [draft] appendix shall be applied when an entity applies the [draft] Amendments to IAS 1 *Presentation of Financial Statements*.

In International Financial Reporting Standards (including International Accounting Standards and Interpretations) applicable at [date] references to 'statement of comprehensive income' are replaced with 'statement of profit or loss and other comprehensive income'.

The reference to 'two statements' in each of the following standards is deleted:

IAS 12 *Income Taxes*

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

IAS 32 *Financial Instruments: Presentation*

IAS 33 *Earnings per Share*

IAS 34 *Interim Financial Reporting*

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 7 *Financial Instruments: Disclosures*

Proposed amendments to guidance on implementing IAS 1

Paragraphs IG1 and IG5 are amended (new text is underlined and deleted text is struck through).

Illustrative financial statement structure

- IG1 IAS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, profit or loss and other comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of IAS 1 for the presentation of the statements of financial position, profit or loss and other comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.
- IG5 Two statements of profit or loss and other comprehensive income are provided, to illustrate the alternative presentations of titles and terms. The statements also illustrate the different presentation options of other comprehensive income, ie before tax or net of tax, of income and expenses in a single statement or in two statements. The single statement of comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, 'the income statement') illustrates the classification of income and expenses within profit by nature.

The two examples of the statement of comprehensive income are deleted and replaced with the following examples.

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

XYZ Group – Statement of profit or loss and other comprehensive income for the year ended 31 December 20X7

(illustrating the classification of expenses within profit or loss by function)

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates ^(a)	35,100	30,100
Profit before tax	<u>161,667</u>	<u>128,000</u>
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	<u>121,250</u>	<u>96,000</u>
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	<u><u>121,250</u></u>	<u><u>65,500</u></u>
Profit attributable to:	20X7	20X6
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30
Other comprehensive income:		
Items never reclassified subsequently to profit or loss:		
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Income tax relating to components of other comprehensive income ^(d)	(166)	(1,000)
	<u>100</u>	<u>3,700</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations ^(b)	5,334	10,667
Available-for-sale financial assets ^(b)	(24,000)	26,667
Cash flow hedges ^(b)	(667)	(4,000)
Share of other comprehensive income of associates ^(c)	400	(700)
Income tax relating to other comprehensive income ^(d)	4,833	(8,334)
	<u>(14,100)</u>	<u>24,300</u>
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>107,250</u></u>	<u><u>93,500</u></u>
Total comprehensive income attributable to:	20X7	20X6
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>

Alternatively, components of other comprehensive income could be presented in the statement of comprehensive income net of tax.

EXPOSURE DRAFT MAY 2010

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7
(illustrating the classification of expenses within profit or loss by nature)
(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates ^(a)	<u>35,100</u>	<u>30,100</u>
Profit before tax	161,667	128,000
Income tax expense	<u>(40,417)</u>	<u>(32,000)</u>
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
NET INCOME FOR THE YEAR	<u><u>121,250</u></u>	<u><u>65,500</u></u>
Other comprehensive income, net of tax:		
Items never reclassified subsequently to profit or loss:		
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	<u>(500)</u>	<u>1,000</u>
	100	3,700
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations ^(b)	4,000	8,000
Available-for-sale financial assets ^(b)	(18,000)	20,000
Cash flow hedges ^(b)	(500)	(3,000)
Share of other comprehensive income of associates ^(c)	400	(700)
	<u>(14,100)</u>	<u>24,300</u>
Other comprehensive income for the year^(d)	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>107,250</u></u>	<u><u>93,500</u></u>
Net income attributable to:	20X7	20X6
Owners of the parent	97,000	52,400
Non-controlling interests	24,250	13,100
	<u>121,250</u>	<u>65,500</u>
Earnings per share (based on net income, in currency units):		
Basic and diluted	0.46	0.30
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u>107,250</u>	<u>93,500</u>

- (a) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (b) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.
- (c) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates.
- (d) The income tax relating to each component of other comprehensive income is disclosed in the notes.

Approval by the Board of *Presentation of Items of Other Comprehensive Income* published in May 2010

The exposure draft *Presentation of Items of Other Comprehensive Income* (proposed amendments to IAS 1) was approved for publication by fourteen of the fifteen members of the International Accounting Standards Board. Mr Engström voted against its publication. His alternative views are set out after the Basis for Conclusions.

Sir David Tweedie Chairman

Stephen Cooper

Philippe Danjou

Jan Engström

Patrick Finnegan

Robert P Garnett

Gilbert Gélard

Amaro Luiz de Oliveira Gomes

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James J Leisenring

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Warren J McGregor

John T Smith

Tatsumi Yamada

Wei-Guo Zhang

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in the exposure draft *Presentation of Items of Other Comprehensive Income*. Individual Board members gave greater weight to some factors than to others.
- BC2 In October 2009 the IASB and the US Financial Accounting Standards Board (FASB) decided to work jointly on a project that would align the presentation of other comprehensive income (OCI) so that entities using IFRSs and entities using US generally accepted accounting principles (GAAP) would present items of OCI in the same way.
- BC3 The boards will publish their proposed amendments separately. The proposals are very similar in that both boards are proposing that the statement of comprehensive income should have two sections. With these proposals the FASB will be eliminating options for presentation of OCI that the IASB eliminated in 2007.
- BC4 The boards did not debate which items are presented in OCI. Those requirements are contained in other standards.
- BC5 The IASB also proposes to change the title of the statement of comprehensive income to 'statement of profit or loss and other comprehensive income' when it refers to it in IFRSs and other publications. Entities may continue to use other titles as currently permitted by IAS 1 *Presentation of Financial Statements*.
- BC6 Because the IASB's intention in the exposure draft is to address only the presentation of OCI, this Basis for Conclusions does not discuss requirements in IAS 1 that the Board has not reconsidered.

The proposed amendments

- BC7 The exposure draft proposes changes to IAS 1 on how an entity presents OCI and classifies items within OCI by:
- (a) eliminating the option to present all items of income and expense recognised in a period in two statements (see paragraphs 12, 81 and BC18). Instead, all entities would be required to present a continuous statement, displaying two sections: *profit or loss* and *other comprehensive income* (see paragraphs 81 and BC19).
 - (b) requiring each item of OCI to be classified into:
 - (i) items that might be reclassified to profit or loss in subsequent periods; and
 - (ii) items that will not be reclassified subsequently to profit or loss (see paragraphs 82A, BC25 and BC26).
 - (c) requiring an entity that elects the alternative to show items in OCI before income tax to allocate the income tax between tax on items that might be reclassified subsequently to profit or loss and tax on items that will not be reclassified subsequently (see paragraphs 91 and BC27–BC29).
- BC8 The exposure draft also proposes to change the title of the statement of comprehensive income to ‘statement of profit or loss and other comprehensive income’ (see paragraphs 10 and BC21). The use of other titles for this statement will continue to be permitted.

Preliminary Views on Financial Statement Presentation

- BC9 In October 2008 the IASB and the FASB jointly published a discussion paper, *Preliminary Views on Financial Statement Presentation*. In that paper, the boards proposed eliminating the alternative presentation formats for comprehensive income and to require an entity to present comprehensive income and its components in a single statement. The boards asked respondents, in question 14 of that paper, for their view on that proposal and to indicate whether the boards should retain alternatives for allocating and presenting income tax related to comprehensive income.

- BC10 The responses to question 14 were split on whether an entity should present comprehensive income and its components in a single statement or in two separate statements. In general, respondents supporting a single statement of comprehensive income said that it would lead to greater transparency, consistency and comparability. Furthermore, the process of calculating financial ratios would be made easier.
- BC11 Respondents disagreeing with the proposal for a single statement of comprehensive income urged the boards to defer any changes to the guidance on the statement of comprehensive income until they had completed a project to revise the guidance on what items should be presented in OCI. Those respondents also expressed the view that a single statement would undermine the importance of profit or loss by making it a subtotal and that presenting total comprehensive income as the last number in the statement would confuse users. They also expressed the view that requiring all items of income and expense to be presented in a single statement was the first step by the boards to eliminate the notion of profit or loss. In addition, they expressed the view that the items that are presented in OCI are different from items presented in profit or loss. Therefore they would prefer either to keep the presentation of profit or loss separate from the presentation of OCI or to allow management to choose to present them either in a single statement or in two statements.
- BC12 The majority of respondents agreed with retaining the existing requirements for allocating and presenting income tax in the statement of comprehensive income. They pointed out that a subtotal of continuing operations before and after tax is important and that separate income tax information about discontinued operations and OCI items is also useful.

The Board's response to feedback received on the discussion paper

- BC13 The Board considered the comments received and concluded that requiring a statement of profit or loss and other comprehensive income with two sections would maintain a clear distinction between *profit or loss* and *other comprehensive income*.
- BC14 There was overwhelming support from users for presenting profit or loss and OCI in the same statement. Users did not seem concerned that presenting total comprehensive income as the last number in the statement would be confusing.

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

- BC15 The Board acknowledges that it has not set out a conceptual basis for how it determines whether an item should be presented in OCI. It also agrees with respondents that OCI items can have qualities that differ from each other. It is those differences that motivated the Board to propose their presentation in OCI in the first instance.
- BC16 Some respondents to the discussion paper said that some items that are currently required or permitted to be presented in OCI should be presented in profit or loss; others disagreed. Similarly, some said that some items that are presented in profit or loss should be presented in OCI, and others disagreed. What remains clear is that all of these items are income or expenses that affect comprehensive income (non-owner changes in equity).

Statement of profit or loss and other comprehensive income

- BC17 The Board discussed in its deliberations on financial instruments and pensions the increasing importance of consistent presentation of items of OCI. Both projects may result in an increase in the number of items included in OCI, particularly items that will not be reclassified subsequently to profit or loss. The FASB also decided, independently, to review the presentation of OCI. In October 2009 the boards decided to work together to issue separate but consistent requirements for presenting OCI.
- BC18 The Board thinks it is important that all income and expenses that are components of the total non-owner changes in equity should be presented transparently. Accordingly, the Board proposes that profit or loss and OCI should be displayed as separate sections within an overall statement of profit or loss and other comprehensive income.
- BC19 Maintaining a clear distinction between profit or loss and OCI by mandating each to be presented as a separate section within the statement of profit or loss and other comprehensive income would help users to assess the relevance for their analysis of individual income and expense items included in OCI and to understand the potential effects that some OCI items may have on profit or loss.
- BC20 The Board has no plans to eliminate profit or loss as a measure of performance. Profit or loss will be presented as a separate section of the statement of profit or loss and other comprehensive income and will remain the required starting point for the calculation of earnings per share.

- BC21 The Board also thinks it is appropriate to change the title of the statement of comprehensive income. It is clear that the IFRS community is still troubled by the use of the term *comprehensive* in the title. This may also give comprehensive income a perceived prominence over profit or loss. Therefore the Board proposes to change the title to 'statement of profit or loss and other comprehensive income'. However, the current option to use other titles for this statement will remain.

Interaction with other projects

- BC22 These proposals are presented separately from the main proposals on financial statement presentation mainly to align more closely the effective date of these amendments with those of the proposed amendments to IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. If confirmed, the FSP proposals are likely to be made effective later than these OCI proposals as the proposed FSP changes are more extensive.
- BC23 IFRS 9 permits an entity to make an irrevocable election to present in OCI changes in the fair value of any investment in equity instruments that is not held for trading. The two remaining phases of the financial instruments project, impairment and hedging, may add further items that would be presented in OCI. The Board has tentatively decided that if a financial liability is designated under the fair value option, the effect on the fair value attributable to changes in the liability's credit risk will be presented in OCI.
- BC24 The exposure draft *Defined Benefit Plans* (proposed amendments to IAS 19) includes proposed requirements to present in OCI remeasurements of pension plan assets and liabilities. That exposure draft also proposes to remove the option of using the corridor approach to account for actuarial gains and losses, thereby increasing the use of OCI for those items.

Presentation of OCI

- BC25 With more items presented in OCI as a result of decisions that have been made in other projects, the Board thinks it is necessary to make the presentation of OCI clearer to enable users to have a better understanding of the effect of OCI items on the financial performance of an entity. The Board thinks that it is helpful to make a distinction between OCI items that will never be reclassified to profit or loss and those that are

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

subject to subsequent reclassification (recycling). The Board proposes to achieve this by requiring entities to classify each item of OCI as either an item that might be reclassified subsequently to profit or loss or an item that is not reclassified subsequently to profit or loss.

- BC26 These improvements will also make it easier to compare financial statements prepared in accordance with IFRSs with financial statements prepared in accordance with US GAAP. Users will be able to identify easily the amounts in OCI that are not reclassified. All amounts in OCI are reclassified in US GAAP.

Allocation of income tax

- BC27 In their joint discussion paper on financial statement presentation, the boards proposed that the current alternatives in US GAAP and IFRSs for allocating income tax to items of OCI should continue. Current requirements mean that entities must present income tax expense or benefit for each item of OCI. However, entities may present items of OCI either:
- (a) net of related income tax effects, or
 - (b) before income tax effects with disclosure of the income taxes allocated to each item.
- BC28 Respondents generally supported the proposal that existing presentation alternatives for the tax effects of items of OCI should be preserved. However, some respondents disagreed with the requirement to allocate income tax expense separately to each item of OCI because of the cost of providing such information. The Board considered all of the comments received and proposes to retain the requirement to allocate income tax to each item of OCI and to continue to allow the existing alternatives for presenting those allocations.
- BC29 Because the Board decided to require items presented in OCI to be grouped into those that may be reclassified to profit or loss and those that will not, the Board also proposes to require allocation of income tax between those two groups of OCI items if an entity chooses to present OCI before tax.

Transition

- BC30 In the Board's view it would not be unduly burdensome for entities to apply the proposed changes to IAS 1 retrospectively. The proposed changes apply only to presentation and there are no new requirements to present additional information.
- BC31 Accordingly, the Board proposes that entities should apply the proposed amendments to IAS 1 retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Cost-benefit considerations

- BC32 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To achieve this objective, the Board tries to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement changes to existing requirements might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.
- BC33 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:
- (a) the costs incurred by preparers of financial statements;
 - (b) the costs incurred by users of financial statements when information is not available;
 - (c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information;
 - (d) the benefit of better economic decision-making as result of improved financial reporting; and
 - (e) the costs of transition for users, preparers and others.
- BC34 The objective of the proposed amendments is to improve the usefulness of information available to users for their assessment of the financial performance of entities. However, the Board also considered the cost of implementing the proposed amendments and applying them on a continuous basis.

PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

- BC35 The proposed amendments, if confirmed, should improve the ability of users to understand the financial reporting of all non-owner changes in equity by:
- (a) presenting in the same statement all non-owner changes in equity.
 - (b) improving comparability by eliminating options currently in IAS 1.
 - (c) maintaining a clear distinction between profit or loss and OCI.
 - (d) improving the understanding of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently into profit or loss and items that will not be reclassified subsequently into profit or loss.
- BC36 The Board has assessed that the incremental costs of complying with the proposals are minimal. Accordingly, the Board believes that the benefits of proposed amendments outweigh the costs.

Alternative view of Jan Engström

- AV1 Mr Engström voted against publication of the exposure draft *Presentation of Items of Other Comprehensive Income* for the reasons set out below.
- AV2 Recent decisions in other projects have increased the number of items that are not reported in profit or loss, some of which are then not reclassified to profit or loss. These decisions have been made on a project-by-project basis, sometimes to balance differing opinions, and justify a review of how best to present performance.
- AV3 The exposure draft proposes the elimination of the two-statement option and mandates the use of a single statement. There is no conceptual basis for the decisions that have been made about which items should be presented in profit or loss and which items should later be reclassified into profit or loss. Mr Engström finds this unsatisfactory and believes that before the two-statement option is eliminated a thorough conceptual debate should take place to determine what should be presented as other comprehensive income and when and which items presented as other comprehensive income should be reclassified to profit or loss.
- AV4 Mr Engström agrees that the increased use of other comprehensive income justifies a review of how performance should be presented but he sees no reason to 'fast track' this change, which he believes should be considered together with other topics in the project on financial statement presentation.
- AV5 Profit or loss is a central term in financial reporting. Many see profit as the sole purpose of being in business and use of jargon such as 'bottom-line management' or 'profit-focus' is common.
- AV6 In Mr Engström's view, making profit or loss a subtotal in a single statement will dilute the concept and he therefore supports a review of performance presentation with the aim of bringing more of the items currently presented in other comprehensive income into profit or loss and thereby maintaining profit or loss as a central concept for performance reporting.