30 September 2010

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME*

In response to your request for comments on the IASB's exposure draft on *Presentation of Items of Other Comprehensive Income,* attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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SAICA SUBMISSION ON EXPOSURE DRAFT ON *PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME*

GENERAL COMMENTS

The International Accounting Standards Board (IASB) issued a revised version of IAS 1 – *Presentation of Financial Statements* in September 2007, effective for all year ends beginning on or after 1 January 2009. Many entities have only recently implemented the revised requirements of IAS 1 relating to the presentation of other comprehensive income in their financial statements. The amendments proposed by this exposure draft will result in entities having to once again revise their approach to presentation.

In addition, the IASB's current work plan includes a project on financial statement presentation, which will result in significant changes to the existing format of presentation. The IASB's current work plan indicates that a final standard regarding the proposed changes in this exposure draft will be issued in the last quarter of 2010 and a full revised IAS 1, at the end of 2011. In the light of the timing of the effective date of the current IAS 1, as well as the more substantial changes in the pipeline, we are concerned that preparers might be resistant to implement these interim amendments.

Most of our constituents question whether these interim amendments will provide sufficient improvements to financial reporting at present to justify interim amendments. A minority of our constituents, however, agree with the interim amendments to IAS 1. Both views are captured in our response to the questions.

One of the issues being considered in many of the IASB's current projects (for instance the exposure draft on the fair value option for financial liabilities) is whether certain items should be recognised in other comprehensive income and, if so, whether those amounts may be subsequently reclassified to profit or loss. The clarification of the conceptual merits of recognising items in other comprehensive income and the subsequent reclassification of such amounts to profit or loss out of other comprehensive income is thus urgently required. The constituents that are against the implementation of the proposals in the exposure draft believe that this conceptual reasoning must first be clarified.

SPECIFIC COMMENTS

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?

We agree that the proposed title is more descriptive, but most of our constituents are concerned that the proposed title is too long. They feel that due to this reason many entities might choose to still use the alternative title 'Statement of Comprehensive Income' in practice, in which case they question whether there is a need for this change now as articulated in our general comments above. Alternatively, a longer title such as that proposed in the exposure draft might result in the use of abbreviations when preparers and users are referring to this statement, which could in turn result in some users not understanding the abbreviation when it is used. Thus the objective of the title being more descriptive might not be achieved when abbreviations are used. Most of our constituents therefore proposed that the current title be retained until the comprehensive project is completed.

The minority of our constituents agree with the use of the new title since it is more descriptive and focuses on describing the two sections of the single statement.

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?

Conceptually we agree that a 'one statement approach' has merit in that all income and expenses for a period are presented in one statement. Most of our constituents are of the view that this should be a goal of the comprehensive financial statement presentation project, but question the need for the interim amendment.

A minority of our constituents are supportive of the immediate implementation of a one statement approach. All income and expenses are recorded in one statement and will provide a clearer picture if an entity for instance recorded a profit under the profit and loss section, but an overall comprehensive loss for the year after deducting losses recorded in other comprehensive income.

Those against the immediate implementation of a 'one statement approach' feel that the following aspects must first be resolved in the IASB's comprehensive presentation project:

- Although the exposure draft confirms that profit and loss will remain the required starting point for the calculation of earnings per share (BC20), certain concerns were expressed regarding having a separate accounting standard focusing on a specific line in the statement of profit or loss and other comprehensive income that is not the final amount in that statement. Assuming that a 'one statement approach' is adopted, some constituents proposed that a per share statement based on total comprehensive income could be incorporated that provides and explains basic and other disclosed earnings per share.

- If a 'one statement approach' is adopted it calls into question why reclassifications are provided for at all, as it is argued that an item should appear only once in a primary statement as they do on the face of the statement of financial position and the statement of cash flows. For this reason and that noted in the previous bullet, the clarification of the conceptual merits of recognising items in other comprehensive income and the subsequent reclassification of such amounts to profit or loss out of other comprehensive income is urgently required.

- The illustrative example on page 15 of the exposure draft, where earnings per share and the attribution of profit for the year to owners and non-controlling interests are presented between the profit and loss section and the other comprehensive section, creates an impression that there are two separate statements. Some of our constituents believe that such a presentation format, in one statement, may be more confusing for the users of the financial statements.

A minority of our constituents feel that the 'one statement approach' is too long for some entities such as financial institutions that provide additional information such as classifications of income and expenditure. If a 'one statement approach' is mandated, those entities may still provide the profit and loss section on one page and other comprehensive income section on the following page. Accordingly, any merits of having a 'one statement approach' may be lost.

Regarding the question of consistency in presentation and comparability of information, most of our constituents do not believe that a 'one statement approach' will necessarily improve consistency or comparability. In a 'two statement approach' all the information is still available and readily accessible.

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?

Yes, most of our constituents agree that this disclosure will provide decision useful information. In the current IFRS regime, where the decision to reclassify items out of other comprehensive income is made on an *ad hoc* basis as required by different standards, this disclosure might be especially helpful. We again stress that most of our constituents believe that the conceptual merits for the decision to require reclassification (or not) are more urgently required and should be addressed in the IASB's comprehensive financial statement presentation project.

The question refers to reclassification "*in subsequent periods upon derecognition*" while paragraph 82A of the standard refers to "*subsequently to profit or loss when certain conditions are met*". We prefer the wording in paragraph 82A. For instance, gains and losses that have been deferred in a qualifying cash flow hedging relationship in terms of IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) may be reclassified to profit or loss as and when the underlying hedged item affects profit or loss, despite the fact that neither the hedging instrument nor the hedged item have been derecognised.

Some of our constituents have expressed concerns regarding the disclosure of an investor's proportionate interest in an investee arising from changes in other comprehensive income of associates and joint ventures accounted for in terms of the equity method. They believe that the investor's share in other comprehensive income should follow the same classification disclosure as that proposed in paragraph 82A(a) for the reasons given below. The investor's share of some of the amounts in other comprehensive income might need to be reclassified since either the amounts might need to be reclassified based on the investor's share in the nature of amounts in the investees' other comprehensive income or upon disposal of any such investment any profit on loss on the sale of such investments will need to include amounts previously included in other comprehensive income on the same basis as if the associate or joint venture had directly disposed of the related asset or liability.

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?

We agree that if other comprehensive income is allocated between those that will be reclassified in subsequent periods and those that will not be reclassified, the income tax effect should also be allocated as such.

Further to our response in question 3 regarding other comprehensive income recognised in terms of the equity method for associates and joint ventures, some constituents are of the view that paragraph 91 requires additional deferred tax recognised by the investor on these investments in associates and joint ventures to be allocated between items that may have been reclassified or not. The reason for this is that this paragraph does not distinguish between paragraphs 82A (a) and (b) and thus tax needs to be split between amounts that will be reclassified subsequently to profit or loss and those that won't be subsequently reclassified for equity accounted amounts in other comprehensive income. If the tax amounts of equity accounted amounts in other comprehensive income needs to be split on this basis, then the gross amounts should also be split on this basis as stated in our response to question 3.

Question 5

In the Board's assessment:

(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?

We do not agree that the proposals will provided significant benefits regarding (a)(i) to (iii). The classification (recycling or not) in (a)(iv) will provide information that is not currently disclosed. Although the cost could be minimal, entities will still have to apply time and effort to effect the changes, which we believe will not provide significant benefits in an interim period.

Question 6
Do you have any other comments on the proposals?

Paragraph 91

We question whether the word "*must*" is the correct word in the last sentence of paragraph 91. We believe that certain items should be reclassified and propose that "*must*" be replaced by the word *"should"*. This would align with the terminology that is used in other standards.

Illustrative financial statement structure

In the illustrative example on page 15 the following correction needs to be made: "*Income tax related **to** ~~of~~ other comprehensive income*" under the heading "*Items that may be reclassified subsequently to profit or loss"*.

In the illustrative example on page 15 "*PROFIT FOR THE YEAR*" is used and the illustrative example on page 16 "*NET INCOME FOR THE YEAR"* is used. We question whether different wording should be used when the titles 'Statement of profit or loss and other comprehensive income' or 'Statement of comprehensive income' are used and suggest that both should be "*PROFIT FOR THE YEAR*" so as to avoid confusion.

Note (a) in the illustrative example on page 16 refers to "*share of associates' other comprehensive income …..*". We are of the view it should refer to "*share of associates' profit or loss …*".

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