

# Proposed changes to the presentation of other comprehensive income

The IASB recently issued an exposure draft<sup>1</sup> proposing limited changes to IAS 1 *Financial Statement Presentation* regarding the presentation of other comprehensive income (OCI). Originally part of the joint IASB/FASB project on *Financial Statement Presentation*, the IASB and FASB (the Boards) have decided to bring certain aspects of that project forward in a separate set of proposed changes to IFRS and US GAAP<sup>2</sup>.

Currently, only a limited number of transactions are recognised in OCI. However, ongoing changes to IFRS, such as IFRS 9 *Financial Instruments* and the recent proposed amendments to IAS 19 *Employee Benefits*, will lead to an increased usage of items within OCI. The IASB therefore decided to accelerate this element of the broader project on financial statement presentation by proposing limited changes to IAS 1 in order to improve the presentation of OCI in the short term.

## Summary of proposals

The exposure draft proposes two key changes to IAS 1. The first is to present a single statement of comprehensive income containing two distinct sections for profit or loss and other comprehensive income, thereby eliminating the current option of presenting two separate statements. The second significant change proposes a new presentation approach for items within OCI. Items that would be reclassified (or 'recycled') to profit or loss at a future point in time (for example upon derecognition or settlement) would be presented separately from items which will never be reclassified (see Box 1).

### Box 1: Proposed presentation of elements of OCI under the amendments to IAS 1

#### OCI items that can be reclassified into profit or loss:

- ▶ Foreign exchange gains and losses arising from translations of financial statements of a foreign operation (**IAS 21**)
- ▶ Gains and losses on remeasuring available-for-sale financial assets (**IAS 39**)
- ▶ Effective portion of gains and losses on hedging instruments in a cash flow hedge (**IAS 39**)

#### OCI items that cannot be reclassified into profit or loss:

- ▶ Changes in revaluation surplus (**IAS 16 and IAS 38**)
- ▶ Actuarial gains and losses on defined benefit plans (**IAS 19.93A**)

<sup>1</sup> Exposure Draft, *Presentation of Items of Other Comprehensive Income* (proposed amendments to IAS 1).

<sup>2</sup> Proposed Accounting Standards Update, *Comprehensive Income* (Topic 220).

## Why are these changes needed?

The primary issue that the IASB wanted to address is the lack of distinction between different items in OCI, as well as a lack of clarity in the presentation of OCI items. Presently, some items in OCI could have a considerable effect on the financial performance of the entity if they were to recycle through profit or loss, but this may be unclear based on the current presentation. Grouping OCI items together based on whether they can or cannot be recycled into profit or loss is something the IASB believes is necessary and achievable in the short term, in order to address this issue.

There is also a lack of consistency in the presentation of OCI items. Currently, OCI items can either be presented within the statement of comprehensive income or as a separate statement altogether. The IASB believes that items presented in profit or loss and OCI contain important and interrelated information about the financial performance of the entity (particularly those OCI items that can be recycled into profit or loss) and therefore should be presented together, as separate sections, within the same statement. The IASB also believes it is important that all income and expense items that represent non-owner changes in equity should be presented in the same statement. The single statement approach would also address the lack of comparability with US GAAP that currently exists.

## Concerns of constituents

Feedback on a joint IASB/FASB discussion paper on financial statement presentation issued in October 2008 identified concerns that the Boards may be attempting to eliminate the distinction between *net profit* and *other comprehensive income* (or even attempt to eliminate the use of *net profit* altogether as a performance measure). The Boards, however, acknowledged the differences in nature of items of *profit or loss* and *OCI* and emphasised in the proposed amendments (as well as in deliberations leading up to the release of the exposure draft) that they are not intending to eliminate the use of *net profit* as a measure of performance.

As shown in the example of the proposed 'statement of profit or loss and other comprehensive income' included in the amended illustrative guide<sup>3</sup> to the exposure draft, profit or loss will still be clearly and prominently presented in the statement and will remain as the required starting point for the calculation of earnings per share.

Some had hoped that the IASB would address the issue of recognition of OCI items. However, the exposure draft does not propose any changes to the items that are being recognised in OCI, nor does it change the existing requirements with respect to reclassification of items into profit or loss. The IASB acknowledges that further work is needed to develop a clear principle for measuring performance. However, this could take a substantial amount of time and should not stop improvements being made to presentation of OCI items in the meantime.

## Business impact

The amendments should enable financial statement users to more easily identify the components of OCI that might have a significant future impact on an entity's overall financial performance. The costs of achieving this presentation are not expected to be significant.

Comments on the exposure draft are due by 30 September 2010

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EYG no. AU0541

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<sup>3</sup> Paragraph IG 5 of the exposure draft.