



Australian Government
**Australian Accounting
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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear David

Exposure Draft ED/2010/5
Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft ED/2010/5 *Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)*. In formulating these comments, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

Overall view

The AASB is concerned that the proposed improvements do not address some of the fundamental issues relating to the presentation of financial performance. In particular, the AASB is concerned that the ED does not identify a principle for determining those items that should be presented as part of net income and those items that should be reported as part of other comprehensive income (OCI), and determining the items of OCI that should be reclassified to profit or loss and the items that should never be reclassified to profit or loss (i.e. the notion of 'recycling'). The AASB also questions the timing of making the proposed improvements in this ED considering the IASB has higher priority projects, such as revenue recognition, leases and the fundamental review of financial statement presentation.

The recent changes to IFRSs and proposed changes in respect of OCI, which have been piecemeal, lack a common principle for classifying items in OCI which suggests that there is no clear and consistent meaning attaching to an OCI classification. Some of the changes have added to the items presented within OCI, for example, ED/2010/4 *Fair Value Option for Financial Liabilities* and ED/2010/3 *Defined Benefit Plans (proposed amendments to IAS 19)*, whilst others will reduce the number of items presented in OCI, for example, the introduction of IFRS 9 *Financial Instruments*. The likelihood of ongoing piecemeal changes in the items being presented in OCI emphasises the need to develop a common principle for presenting information that is useful for measuring financial performance rather than addressing the matter on a topic-by-topic basis. Furthermore, in our view, recent IASB decisions, for example, the proposed prohibition to apply hedge accounting on investments in equity instruments designated at fair value through OCI, are a result of accounting complexities created by the lack of a common principle for classifying items in

OCI and the notion of ‘recycling’. It is our concern that these complexities will continue to arise if the IASB does not address ‘recycling’ or develop a common principle for OCI classification.

In the absence of a principle for establishing a distinction between profit or loss and OCI, the AASB considers the notion of ‘recycling’ inappropriate and continues to question why certain items are recycled and others are not.

The AASB recommends that the IASB delay any further work on the proposals in ED/2010/5 and instead focus on developing a conceptual basis for financial performance reporting as part of the Conceptual Framework Project. This would be a more effective way of establishing a global standard that will guide the organisation and presentation of information in the financial statements. The AASB suggests that, as part of developing a conceptual basis for classifying items within the statement of profit or loss and other comprehensive income, the principles underlying the ‘matrix format’ considered by the IASB in 2001 and 2002 should be reconsidered. For example, the concept of distinguishing items that are predictive in nature and those items that are ‘one off’ adjustments could provide useful information to users in predicting the future financial performance of entities.

The AASB has some additional concerns and comments which are set out below.

OCI items relating to non-current assets (or disposal groups) held for sale and discontinued operations

ED/2010/5 and existing IFRSs do not address the existence of items of OCI attributable to non-current assets (or disposal groups) held for sale and discontinued operations.

Paragraph 82(e) of the ED and paragraphs 33 and 33A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* may imply that only profit or loss items of non-current assets (or disposal groups) held for sale and discontinued operations are required to be separately presented or alternatively it may imply that items of OCI relating to non-current assets (or disposal groups) held for sale and discontinued operations should be incorporated into the single amount shown in profit or loss.

Considering that this issue has not been addressed as part of the Annual Improvements Project or this ED, it remains unclear how entities should present items of OCI attributable to non-current assets (or disposal groups) held for sale and discontinued operations relating to existing requirements as well as the proposals in the ED. The AASB encourages the IASB to revisit this issue as part of the remaining parts of the Financial Statement Presentation Project.

Comments if the IASB proceeds with its proposals

If the IASB proceeds with its proposals in ED/2010/5 rather than fundamentally reconsidering its approach, the AASB supports the proposals to:

- (a) present all items of income and expense recognised in a period in a single statement with two sections – profit or loss and OCI;
- (b) require entities to present items of OCI that will never be reclassified to profit or loss separately from those that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition; and

- (c) allocate income tax on items of OCI between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss.

The AASB's specific comments on the questions in the ED are set out in Appendix A.
The AASB staff's editorial comments on the ED are set out in Appendix B.

If you have any queries regarding matters in this submission, please contact me,
Latif Oylan (loylan@aab.gov.au) or Mischa Ginns (mginns@aab.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, sweeping initial "K".

Kevin M. Stevenson
Chairman and CEO

APPENDIX A

AASB's Specific Comments on the Questions in ED/2010/5

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?

The AASB does not support the proposal to change the title of the statement of comprehensive income to 'Statement of profit or loss and other comprehensive income' because the proposed title is too long and frequent title changes may cause confusion. There is no need to change the title, particularly in view of the proposal to retain the option for preparers to use other titles for the statement of comprehensive income. The AASB suggests that the current title be retained.

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?

Coupled with our comments in the covering letter, the AASB is concerned that the proposals in ED/2010/5 do not identify a principle for determining those items that should be presented as part of profit or loss and those items that should be reported as part of OCI.

The AASB is also concerned that the two sections may imply that there is a 'first class' and 'second class' distinction within the Statement of profit or loss and other comprehensive income. However, if the IASB proceeds with its proposals in this ED, the AASB supports the two section approach, as a short term solution, that would improve comparability and enhance consistency, by eliminating the differences between the presentation formats currently used by entities that apply IFRSs.

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?

If the IASB decides to proceed with the proposals in this ED rather than fundamentally reconsidering its approach, the AASB supports the IASB's proposals on the basis that it may help users to be aware of those items that will be re-presented, even though making the distinction appears to provide no information value about the items themselves.

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?

The AASB supports this proposal on the same terms as noted in relation 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; and
 - (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?

Subject to our concerns noted in the covering letter, the AASB supports the proposals as providing greater clarity of the existing approach in IFRSs, but reiterates that the IASB should focus on developing a conceptual basis for determining the items that should be presented as part of profit or loss and the items that should be reported as part of OCI and address the logic and need for recycling.

Question 6

Do you have any other comments on the proposals?

AASB staff have identified a number of editorial matters and our comments on these are set out in Appendix B.

APPENDIX B

AASB Staff's Editorial Comments on ED/2010/5

Most significant comments

Paragraphs	Comment
10	<p>AASB staff think it is unnecessary to include an example in paragraph 10 as this does not provide any added value.</p> <p>We suggest including extra wording in paragraph 10 to emphasise that entities should use a title that is consistent with the content of the statement.</p>
82(e)	<p>ED/2010/5 does not include a consequential amendment to IFRS 5 in relation to the proposed amendment to paragraph 82(e). This makes paragraph 33(a) of IFRS 5 inconsistent with the new paragraph 82(e) proposed for IAS 1 <i>Presentation of Financial Statements</i>. AASB staff think there should be a consequential amendment to paragraph 33(a) of IFRS 5 to make the requirements within IFRSs consistent.</p>
82A(a), 91, BC7, BC 25	<p>There are inconsistencies in the words used to describe the proposals. For example, paragraphs 82A(a)(i) and Question 3 on page 7 refers to 'will', paragraphs 91, Question 4 on page 7, Question 5 on page 8, BC7(b)(i)&(c) and BC25 refers to 'might', whilst the examples on pages 15 and 16 refer to 'may'. Furthermore, paragraphs 82A(a)(ii), 91, Question 3 on page 7, Question 5 on page 8 and BC7(b)(ii)&(c) refer to 'will not' whilst paragraph BC25 and the examples on pages 15 and 16 refer to 'never'. AASB staff are concerned that the inconsistent use of wording may imply different meaning and therefore we suggest that the wording is made consistent throughout the ED.</p>
82A(a)(i)	<p>Paragraph 82A(a)(i) refers to 'special conditions' however this term is not defined or explained within ED/2010/5 or the Basis for Conclusions. AASB staff think the IASB should clarify what is meant by 'special conditions'.</p>
82B	<p>There is no proposed requirement to present sub-totals for the profit or loss section and the items of OCI section. AASB staff think there should be a requirement to present sub-totals for each of the proposed sections.</p>
83(b)	<p>The word 'total' should be inserted before the words 'comprehensive income' for consistency of wording throughout the proposals.</p>

Paragraphs	Comment
91	Paragraph 91(b) refers to ‘components’ whereas the lead-in to paragraph 91 has been amended to refer to ‘items’ rather than ‘components’. The illustrative examples on pages 15 and 16 of ED/2010/5 and paragraphs 90, 92, 93 and 96 of IAS 1 refer to ‘components’. The wording should be made consistent throughout the ED and IAS 1.

Other comments

Paragraphs / Page	Comment
82A, 82B and 139G	Paragraphs 82A, 82B and 139G are new paragraphs and have not been underlined whereas paragraph 81 is new and underlined. AASB staff suggest that new paragraphs in the ED should be presented in a consistent manner.
139G	The reference to paragraph ‘81A’ should be corrected to paragraph ‘81’.
Page 16	The title of the illustrative example on page 16 of ED/2010/5 refers to ‘Statement of comprehensive income’ rather than the title proposed in the ED ‘Statement of profit or loss and other comprehensive income’. The title should be updated to make the guidance consistent with the proposals in ED/2010/5.
Page 16	Footnote (a) relates to the line item ‘share of profit of associate’ however the footnote refers to ‘share of associates’ other comprehensive income’. The footnote should be updated to be consistent with the relevant line item.
Page 16	The IASB should clarify on page 16 that the footnotes to the Illustrative Guidance are not part of the illustrative note disclosures.