

Department of Treasury and Finance

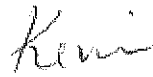


Tasmania

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
MELBOURNE VIC 8007

Dear Mr Stevenson



**AASB EXPOSURE DRAFT 197 PRESENTATION OF ITEMS OF OTHER
COMPREHENSIVE INCOME**

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on Exposure Draft 197 *Presentation of Items of Other Comprehensive Income*.

The majority of HoTARAC members support the proposed changes to the Statement of Comprehensive Income and believe that the change in title to the Statement of Profit or Loss and Other Comprehensive Income will clarify the content of the Statement. HoTARAC also considers the requirement to present a single Statement with two sections: profit or loss and other comprehensive income will provide more consistency in presentation, make financial statements more comparable and potentially lead to more objective consideration in classifying changes in net assets.

Conceptually, while HoTARAC supports the changes to the presentation of other comprehensive income, HoTARAC believes more consideration needs to be given to the conceptual basis for determining what items should be presented in other comprehensive income.

HoTARAC supports the proposal to require entities to present items of other comprehensive income that will be reclassified to profit or loss in subsequent periods separately from items of other comprehensive income that will not be reclassified to profit or loss.

Comments by HoTARAC on the Exposure Draft and AASB specific matters are provided in Attachment 1.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on (02) 6215 3551.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'D W Challen'.

D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

29 July 2010

Encl

Contact Amy McShane
Phone: (03) 6233 3411
Our Ref 10/95436 AM/DJC

**ED 197 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME
AASB SPECIFIC MATTERS FOR COMMENT**

a) Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

I. Not-for-profit entities; and

II. Public sector entities – including in relation to GAAP-GFS harmonisation under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. If you think the proposals would have implications for GAAP-GFS harmonisation, how do you think those implications should be dealt with in the context of the principles in AASB 1049?

HoTARAC believes that there will be no significant impact relating to GAAP-GFS harmonisation under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Under AASB 1049, all amounts relating to items included in the determination of the comprehensive result are classified as transactions or other economic flows, consistent with the principles in the ABS GFS Manual, Paragraph 30. A minority of HoTARAC members do not consider that incorporating GAAP oriented sub-headings into an AASB 1049 presentation format that focuses on GFS concepts is entirely logical, as the concept of “recycling” does not exist under GFS. Further, these members believe the additional sub-headings would clutter an already over-crowded Statement, particularly where discontinued operations are also presented.

Due to these concerns, a minority of HoTARAC members do not believe this additional detail should be mandated on the face of a Statement of Profit or Loss and Other Comprehensive Income prepared under AASB 1049. Instead, they propose that the option be given to disclose this additional detail in the notes to that Statement.

b) Overall, would the proposals result in financial statements that would be useful to users;

HoTARAC believes that the proposals will result in financial statements that would be useful to users, particularly the disaggregation of other comprehensive income into items which can be reclassified and items which cannot be reclassified into profit or loss. HoTARAC considers this disaggregation is important given current Projects on AASB 119 *Employee Benefits* and AASB 9 *Financial Instruments*.

c) Are the proposals in the best interests of the Australian and New Zealand economies?

No comment.

IASB SPECIFIC MATTERS FOR COMMENT

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 majority of HoTARAC members agree with the Board's proposal to change the title of the "Statement of Comprehensive Income" to the "Statement of Profit or Loss and Other Comprehensive Income". The majority of HoTARAC members believe this title will clarify the content of the Statement and overcome any perception issues as noted in BC21.

A minority of HoTARAC members question the effectiveness of changing the title of the Statement due to the retention of the option to use other titles as currently permitted by IAS 1/AASB 101 *Presentation of Financial Statements*.

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?

HoTARAC supports the proposal to present a continuous Statement, displaying two sections: profit or loss and other comprehensive income and thereby eliminating the option to present all items of income and expense recognised in a period in two statements. HoTARAC agrees with the Board's view that the change will provide more consistency in presentation and make financial statements more comparable.

Conceptually, HoTARAC believes that both profit or loss and other comprehensive income are part of the performance of the entity for the period. Presenting all non-owner changes in equity in a single Statement ensures that users of financial statements can assess the overall performance of the entity.

Question 3: The exposure draft proposes to require entities to present items of 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?

HoTARAC supports the proposal, to present separately, items of other comprehensive income, that will not be reclassified to profit or loss, from those that may be recycled to profit or loss in a subsequent period. HoTARAC believes that the proposal will increase clarity and usefulness of information presented in the financial statements. HoTARAC also understands the importance of the presentation of items of other comprehensive income on IASB Projects such as amendments to IAS 19/AASB 119 *Employee Benefits* and IFRS 9/AASB 9 *Financial Instruments*.

However, HoTARAC considers that the IASB needs to review the recycling rules and provide guidance at a conceptual level as to which items will be recycled and which items will not be recycled, and to develop some consistency across Standards.

Further to the above comments, HoTARAC notes some inconsistency in language used throughout the ED to describe what items are recyclable in a subsequent period. The requirement in proposed Paragraph 82A refers to whether the items "will be reclassified subsequently to profit or loss when specific conditions are met". However, other wording throughout the document implies that management has a choice about whether or not items are subsequently reclassified to profit or loss. For example:

- Question 4 refers to items that might be subsequently reclassified to profit or loss;
- Question 5(a)(iv) and Paragraphs 91, BC7(c), BC25 and BC35(d) refer to items that might be reclassified subsequently to profit or loss; and
- Paragraph BC7(b)(i) refers to items that might be reclassified to profit or loss in subsequent periods.

HoTARAC therefore recommends that all such references that remain in the eventual Standard be re-worded to precisely align to the Paragraph 82A requirement.

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?

HoTARAC agrees with the proposal to require income tax on items presented in other comprehensive income to be allocated between items that might be reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in other comprehensive income are presented before income tax.

HoTARAC considers that this proposal is necessary, due to the proposed separation of other comprehensive income into items that can and cannot be reclassified to profit or loss. HoTARAC supports the retention of the existing presentation alternatives for the tax effects of items of other comprehensive income.

In addition to the proposals above, HoTARAC believes it may also be useful to include the total amount of income tax. For example, this could be included as a footnote to "Total comprehensive income", stating "this includes xxx amount of income tax".

Question 5: In the Board's assessment:**(a) The main benefits of the proposal are:**

- Presenting all non-owner changes in equity in the same statement
- Improving comparability by eliminating options currently in IAS 1.
- Maintaining a clear distinction between profit or loss and items of OCI.
- 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?**

HoTARAC agrees with the Board's assessment.

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

While HoTARAC understands this Project is focused on the presentation of items of other comprehensive income, HoTARAC believes more consideration needs to be given to the conceptual basis for determining whether an item should be presented in other comprehensive income (refer also to HoTARAC's previous suggestion in Question 3). HoTARAC believes this conceptual basis should be located in IAS 1 *Presentation of Financial Statements*.

Editorial Matters

For clarity, HoTARAC recommends that Paragraph 83(b) be amended to read "total comprehensive income for the period ..."

Paragraph 139G refers to having added Paragraph 81A and deleted Paragraph 81. However, the amendment has actually been presented as a replacement of Paragraph 81 (refer also to the reference to Paragraph 81 in Paragraph BC7(a)).

Illustrative Financial Statement Structure

A line item towards the bottom of the first example should be amended to read "Income tax relating to other comprehensive income".

Footnote (a) should be amended to read "This means the share of associates' profit attributable to owners of the associates ..."