



AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

2 August 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Mr Stevenson

EXPOSURE DRAFT ED 197 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

Attached is the Australasian Council of Auditors-General (ACAG) response to the requested specific comments in Exposure Draft referred to above.

I have also attached a copy the ACAG response to the IASB on Exposure Draft 2010/5 - Presentation of Items of Other Comprehensive Income.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill', with a horizontal line underneath.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

ED 197 - Presentation of Items of Other Comprehensive Income

AASB Specific Matters for Comment

The AASB has requested specific comments on whether:

- (a) **there are 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 limitations for GAAP/GFS harmonisation, how do you think those implications should be dealt with in the context of the principles in AASB 1049?**

ACAG Comment:

ACAG notes that entities would still be allowed to use alternative titles for the statement, and present additional line items, headings and subtotals in the statement when such alternatives are relevant to an understanding of the entity's financial performance. However, ACAG is concerned that any excessive use of additional headings and subtotals may confuse users of the financial statements, particularly when entities attempt to comply with the presentation requirements of AASB 101 and the requirements of distinguishing 'transactions' and 'other economic flows' as contained within AASB 1049.

- (b) **overall, the proposals would result in financial statements that would be useful to users; and**

ACAG Comment:

We believe that the proposals outlined in the exposure draft would result in financial statements that are useful to users as they should eliminate the inconsistent presentation of other comprehensive income items.

ACAG acknowledges that the IASB will endeavour to remove the inconsistent identification of items of other comprehensive income as part of their broader project on the presentation of financial statements. A key objective of this broader project would be to provide preparers and auditors with a conceptual basis and additional guidance on the types of items that should be classified as other comprehensive income.

- (c) **the proposals are in the best interests of the Australian and New Zealand economies.**

ACAG Comment:

The proposals are in the best interests of the Australian and New Zealand economies as they would result in greater comparability of financial statements on a global scale, particularly considering that the US Financial Accounting Standards Board (FASB) has issued proposals requiring a similar presentation.

The proposed amendments should also improve the ability of users to understand the financial reporting of entities by presenting, in the same statement, all non-owner changes in equity.



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2 August 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
1st Floor
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David

EXPOSURE DRAFT ED/2010/5 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

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Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

cc: Mr Kevin Stevenson, Chairman, Australian Accounting Standards Board

ED/2010/5 - Presentation of Items of 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?

ACAG Comment:

ACAG agrees with the proposal to change the title of the existing statement of comprehensive income, and acknowledges that entities would still be allowed to use alternative titles.

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?

ACAG Comment:

We agree with the proposals to present a statement of profit or loss and other comprehensive income with two sections in one continuous statement, thereby eliminating the alternative permitted by current IAS 1 to present a separate income statement. The current practice of allowing entities to choose to present items in other comprehensive income in a separate statement can make it difficult for users to understand what the two statements purport to represent and how they interact with each other.

ACAG is of the view that such a proposal would provide greater consistency in presentation because there will be no presentation alternative, however, we do have concerns that such an approach may provide users with an undue focus on the bottom line of the single statement, even though the proposals endeavour to maintain a clear distinction between items presented in profit or loss and items presented in other comprehensive income. To alleviate any undue focus on the bottom line of the single statement, ACAG recommends that IAS 1 be amended to include a requirement of presenting totals and sub-totals in the ‘Statement of Profit or Loss and Other Comprehensive Income’ that reflects the relative importance of those totals and sub-totals to the users of the financial statements. We also note that the term ‘comprehensive’ has been the subject of recent debate, particularly when comprehensive income results in a perceived prominence over profit or loss.

Nevertheless, ACAG agrees with the Board’s conclusion that it is important that all income and expenses that are components of the total non-owner changes in equity should be presented together.

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?

ACAG Comment:

ACAG is of the view that the recycling proposals would provide users with a better understanding of the effect that items of other comprehensive income may have on an entity's future profit or loss.

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?

ACAG Comment:

If an entity chooses to present items in other comprehensive income before tax, ACAG supports the proposal to require income tax to be allocated between items that may and items that may not be subsequently reclassified to profit or loss because such information will be of benefit to users of the financial statements.

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?

ACAG Comment:

Subject to our comments above, ACAG agrees with the Board's assessment of the benefits of the proposals and that the costs of the proposals should be minimal.

In addition, the proposals would assist users in understanding how other comprehensive income items may potentially affect profit or loss in subsequent reporting periods.

ACAG is of the view that the proposal to apply the amendments to IAS 1 retrospectively would not result in undue cost or effort to entities as the changes outlined in the exposure draft do not provide for any new requirements.

Question 6

Do you have any other comments on the proposals?

ACAG Comment:

To promote comparability of financial statements, ACAG believes that the Board should remove the options with respect to the presentation of related income tax on items of other comprehensive income, thereby eliminating the ‘net of related tax effects’ option. ACAG’s preferred approach should eliminate divergence in practice and therefore promote the consistent presentation of financial statements. In addition, the costs associated with presenting the tax effects on a ‘gross basis’ should be minimal compared to the alternative option of presenting information ‘net of related tax effects’.

ACAG’s preferred approach would be for the Board to require the presentation for income tax on related items of other comprehensive income on a gross basis, thereby disclosing a line item that aggregates the amounts of related income tax on items of other comprehensive income that may be reclassified to profit or loss, and a line item for related income tax on other comprehensive income items that may not be subsequently reclassified to profit or loss.

In addition, ACAG recommends that the Board fast-track their project on the presentation of financial statements and principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income. This will provide preparers, auditors and users of financial statements with a conceptual basis and additional guidance on the types of items that may be classified as other comprehensive income.

ACAG notes that the term ‘components’ was replaced with ‘items’ at paragraph 91 of IAS 1. However, this amendment has not been consistently applied throughout the exposure draft. For example, the term ‘components’ was evidenced at paragraph 91(b), IG1, the illustrative examples and throughout the basis for conclusions.