Presentation of items of Other Comprehensive Income (OCI)

Amendment to IAS 1 *Presentation of Financial Statements*

Frequently asked questions

1. What are the current requirements for presenting profit or loss and OCI in IAS 1 *Presentation of Financial Statements*?

Entities currently have a choice and can present profit or loss and other comprehensive income in either:

(a) a single statement of comprehensive income; or

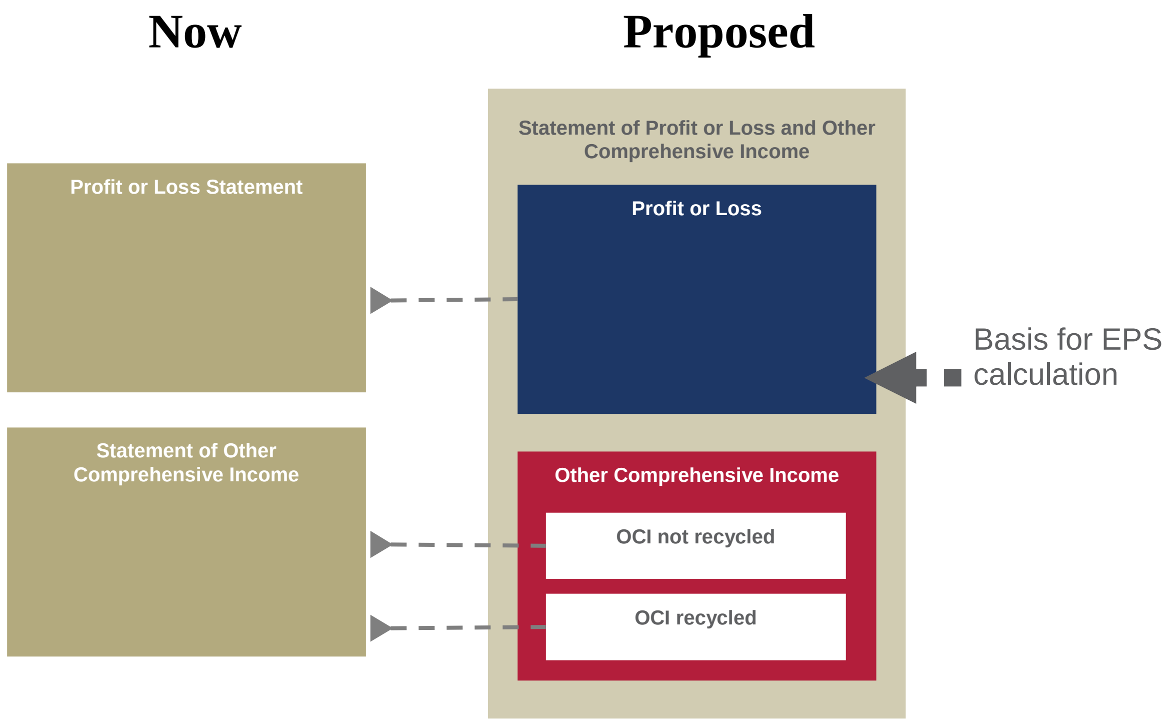
(b) two statements: a statement displaying components of profit or loss (an income statement), and a second statement beginning with profit or loss and displaying the components of OCI (a statement of other comprehensive income).

When an income statement is presented, it is part of a complete set of financial statements, and it must be displayed immediately before the statement of comprehensive income and with equal prominence.

2. What is the IASB proposing in this exposure draft?

It proposes to require entities:

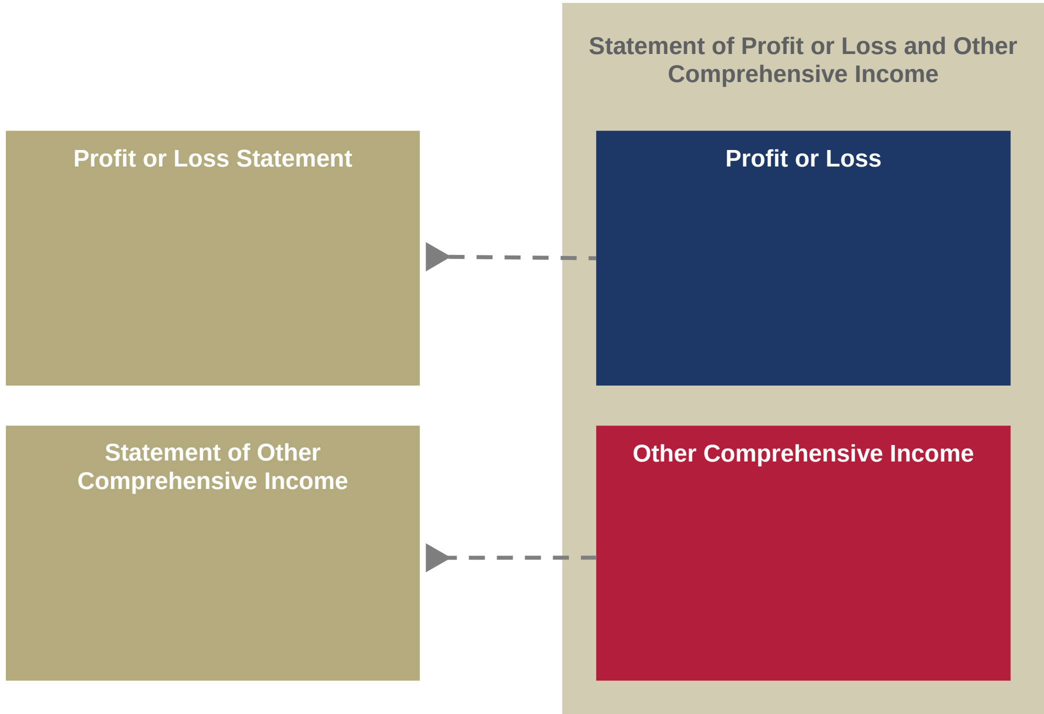
- to present a statement showing as two separate sections:
    i. profit or loss; and
    ii. all items of 'other comprehensive income' (OCI); and
- to present separately:
    i. those items of OCI that might be recycled subsequently; and
    ii. those items of OCI that will not be recycled subsequently.



The proposed amendment does **not** change:

- profit or loss as a key performance measurement;
- which items are presented in OCI and which items are presented in profit or loss; or
- Earnings Per Share (EPS) calculations.

3. Why is the IASB proposing a continuous statement with two sections?



3.1 Background

In its 2006 exposure draft *Presentation of Financial Statements*, the Board proposed that all non-owner changes in equity should be presented either in a single statement or in two statements. However, the proposals in that draft were not the same as what is currently being proposed. In its 2006 exposure draft, the Board proposed that all gains and losses should be presented together in a single statement. The current proposal is to present in one continuous statement both the items presented in OCI and the items presented in profit or loss, but to present them in two distinct and separate sections.

The discussion below on the 2006 exposure draft is for background purposes only.

Respondents to the 2006 exposure draft had mixed views about whether the Board should permit a choice of displaying non-owner changes in equity in one statement or two statements. While there was a range of views, most respondents preferred the two-statement approach because it distinguishes between profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income.

The exposure draft of 2006 expressed the Board's preference for a single statement of all non-owner changes in equity. The Board provided several reasons for this preference. All items of non-owner changes in equity meet the definitions of income and expenses in the Framework. The Framework does not define profit or loss, and nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss. Consequently, the Board decided that it was conceptually correct for an entity to present all non-owner changes in equity (ie all income and expenses recognised in a period) in a single statement, because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.

However, in the Board's discussions with interested parties, it became clear that many were strongly opposed to the concept of a single statement. They argued that there would be undue focus on the bottom line of the single statement. In addition, many argued that it was premature for the Board to conclude that presentation of income and expense in a single statement was an improvement in financial reporting without also addressing the other aspects of presentation and display, namely deciding which categories and line items should be presented in a statement of recognised income and expense.

In the light of these views, although the Board preferred a single statement, it decided that an entity should have the choice of presenting all income and expenses recognised in a period in either one or two statements. An entity is prohibited from presenting components of income and expense (ie non-owner changes in equity) in the statement of changes in equity.

Many respondents disagreed with the Board's preference, and thought that a decision at this stage would be premature. In their view, the decision on a single-statement or two-statement approach should be subject to further consideration. They urged the Board to first address other aspects of presentation and display, namely deciding which categories and line items should be presented in a 'statement of comprehensive income'. The Board reaffirmed its reasons for preferring a single-statement approach, and agreed to address other aspects of display and presentation in the next stage of the project.

3.2 What has changed since the 2007 amendment to IAS 1 to require the proposed change in presentation?

Since the 2007 amendment to IAS 1, the Board has decided in various projects whether entities should present particular items of income or expense in profit or loss or OCI. This has resulted in an increased use of OCI. For example:

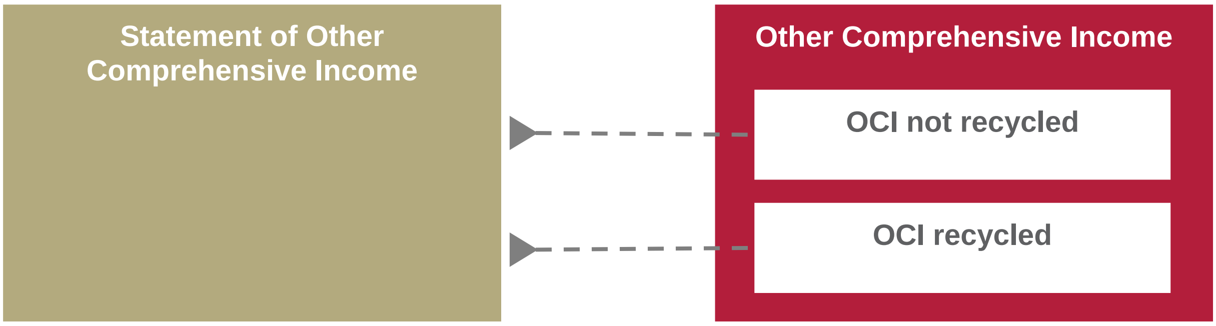
- *Employee benefits:* there has been much discussion as to whether entities should present remeasurements of employee benefit plans in profit or loss or in OCI. The Board is proposing in its exposure draft on employee benefits that the remeasurement component should be presented in OCI. This is because, although the changes included in the remeasurement component may provide information that helps with an assessment of the *uncertainty* of future cash flows, many regard those changes as not providing useful information about the likely *amount* and *timing* of future cash flows. In other words, the Board acknowledged that the nature and characteristics of items included in OCI were conceptually different from the nature of items included in profit or loss, and that they have different predictive value. For these reasons the Board believes that they need to be presented separately.
- *IFRS 9 Financial Instruments:* at initial recognition, an entity may make an irrevocable election to present in OCI subsequent changes in the fair value of an investment in an equity instrument that is within the scope of IFRS 9, and that is not held for trading. Amounts presented in OCI are never recycled to profit or loss.
- *Measuring financial liabilities:* the Board has tentatively decided that for all financial liabilities designated under the fair value option, an entity would be required to present the total fair value change in profit or loss; and to present the portion attributable to changes in own credit risk in OCI (with an offsetting entry to profit or loss). Amounts presented in OCI would never be reclassified (recycled) into profit or loss.

Consequently, because these items will now be presented in OCI, the Board thinks that it is important for all items of income and expense to be easily visible.

The Board acknowledges that items presented in OCI are important to some people for understanding the performance of an entity, while they may be less important for other people. By requiring a statement of profit or loss and other comprehensive income, the Board believes it can help users to assess the relevance of the individual income and expenses that the entity has included in OCI. It will also help users to understand how OCI items could affect profit or loss.

Another benefit will be consistency in presentation in financial statements prepared in accordance with IFRSs, because there will be no presentation alternative. Moreover, the US Financial Accounting Standards Board (FASB) has issued proposals requiring a similar presentation. This will also increase consistency in presentation between financial statements prepared using IFRSs and those prepared using US GAAP.

4. Why is the IASB proposing changes to the presentation of items in OCI?



OCI is being used more (as a result of decisions and proposals in the projects on Employee Benefits and Financial Instruments) so a clear presentation is more important. The IASB proposes presenting those OCI items that will never be recycled to profit or loss separately from those that may be recycled to profit or loss. The Board thinks that this will make financial statements more understandable, and that it will give users a better understanding of the effect that OCI items may have on an entity's financial performance.

5. Why is this amendment being prepared separately from the Financial Statement Presentation project (FSP)?

These proposals are published separately from the financial statement presentation project mainly to align the effective date of these amendments more closely with those of the proposed amendments to IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. If confirmed, the FSP proposals are likely to be made effective later than these OCI proposals because the proposed FSP changes are more extensive.

6. Is this the first step by the IASB to eliminate profit and loss?

The IASB proposes to require entities to present profit and loss and OCI in the same statement, but in two distinct and separate sections. The proposals maintain a clear distinction between items presented in profit and loss and items presented in OCI.

The Board acknowledges that more work is needed on conceptual issues regarding performance reporting. However, the Board believes that it does not have to wait for such discussions to be finalised before it can make smaller improvements, such as this proposed amendment, in the meantime.

A future project could consider the wider issue of measuring and presenting performance. However, the Board does not have any project on its agenda that deals with these issues.

To add a project to its agenda the Board will have to comply with the changes made to the IASC Foundation's Constitution in 2010. The IASB has full discretion in developing and pursuing its technical agenda, subject to the following:

- consultation with the Trustees and the Advisory Council; and
- carrying out a public consultation every three years (the first of which shall begin no later than 30 June 2011).

7. Will the proposed amendment change the calculation of Earnings per Share (EPS)?

The proposed amendment does not change the calculation of EPS. This project does not change what is presented in profit or loss and what is presented in OCI, or how EPS is calculated. The proposed amendment simply changes the presentation of profit or loss and OCI so that they would be shown as two separate sections.

8. How does the proposed amendment change the presentation of tax for items in OCI?

The treatment of tax has remained unchanged. However, as a logical consequence of the proposed amendment, entities will be required to allocate income tax between items that may be reclassified (recycled) and those that are not reclassified (recycled). This is because an entity may present components of other comprehensive income either:

(a) net of related tax effects; or

(b) before related tax effects, with one amount shown for the aggregate amount of income tax relating to those items.

9. Is this a joint project with the FASB?

Yes. In both their joint and separate deliberations on financial instruments and pensions, the FASB and IASB discussed the increasing importance of reporting comprehensive income consistently, because these projects may result in an increase in the number of items included in other comprehensive income. As a result, the boards decided to work together to issue separate but convergent guidance on reporting comprehensive income as soon as practicable.

10. What might a Statement of Profit or Loss and Other Comprehensive Income look like?

The following two examples provide an illustration of what a Statement of Profit or Loss and Other Comprehensive Income *might* look like. However, entities are still allowed to use titles for the statement other than those used in this example. Entities are also allowed to present additional line items, headings and subtotals in the statement when it is relevant to an understanding of the entity's financial performance.

(This example intentionally provides a robust illustration regarding OCI. In practice, the size of the OCI section will vary and should typically be smaller.)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

PROFIT AND LOSS

	THIS YEAR	LAST YEAR
REVENUE	390,456	366,074
Cost of sales	(245,854)	(215,698)
GROSS PROFIT	144,602	150,376
Other income	20,667	15,253
Distribution costs	(8,954)	(7,584)
Administrative expenses	(20,045)	(18,498)
Other expense	(2,076)	(1,956)
OPERATING PROFIT	**134,194**	**137,591**
Finance costs	(11,504)	(13,685)
Finance income	3,488	2,954
Share of profit of associates	35,089	27,345
PROFIT BEFORE TAX	161,267	154,205
Income tax expense	(37,853)	(38,058)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	123,414	116,147
Loss for the year from discontinued operations	0	0
PROFIT OR LOSS	**123,414**	**116,147**

PROFIT ATTRIBUTABLE TO	THIS YEAR	LAST YEAR
Owners of the Company	105,587	104,584
Non-controlling interest	17,827	11,563
	123,414	116,147
EARNINGS PER SHARE		
Basic earnings per share	0.81	0.75
Diluted earnings per share	0.69	0.60

OTHER COMPREHENSIVE INCOME, NET OF TAX

	THIS YEAR	LAST YEAR
Items that will not be reclassified subsequently to profit or loss		
Gain (loss) on strategic equity securities (net of 1,560 and 1,963 tax benefit)	3,640	(4,581)
Gain (loss) on property revaluation (net of 2,662 tax)	6,212	0
Actuarial gains (losses) on defined benefit pension plans (net of 14,876 tax benefit and 9,391 tax)	(34,711)	21,914
Total items never reclassified to profit or loss	(24,859)	17,333
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations (net of 4,640 tax and 5,537 tax benefit)	10,827	(12,921)
Cash flow hedges (net of 559 tax benefit and 2,838 tax)		
Gains (losses) arising during the period (net of 1,489 tax benefit and 2,416 tax)	(3,476)	5,639
Reclassification of gains included in profit or loss (net of 930 and 422 tax)	2,170	984
Share of other comprehensive income of associates	4,105	(2,499)
Total items that may be reclassified to profit or loss subsequently	13,626	(8,797)
OTHER COMPREHENSIVE INCOME	**(11,233)**	**8,536**
TOTAL COMPREHENSIVE INCOME	**112,181**	**124,683**

TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO	**THIS YEAR**	LAST YEAR
Owners of the Company	101,444	110,554
Non-controlling interest	10,737	14.129
	112,181	124,683

STATEMENT OF COMPREHENSIVE INCOME

PROFIT AND LOSS

	THIS YEAR	LAST YEAR
REVENUE	390,456	366,074
Cost of sales	(245,854)	(215,698)
GROSS PROFIT	144,602	150,376
Other income	20,667	15,253
Distribution costs	(8,954)	(7,584)
Administrative expenses	(20,045)	(18,498)
Other expense	(2,076)	(1,956)
OPERATING PROFIT	**134,194**	**137,591**
Finance costs	(11,504)	(13,685)
Finance income	3,488	2,954
Share of profit of associates	35,089	27,345
PROFIT BEFORE TAX	161,267	154,205
Income tax expense	(37,853)	(38,058)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	123,414	116,147
Loss for the year from discontinued operations	0	0
NET INCOME	**123,414**	**116,147**

OTHER COMPREHENSIVE INCOME

	THIS YEAR	LAST YEAR
Items that will not be reclassified subsequently to profit or loss		
Gain (loss) on strategic equity securities	5,200	(6,544)
Gain (loss) on property revaluation	8,874	0
Actuarial gains (losses) on defined benefit pension plans	(49,587)	31,305
Income tax	10,654	(7,428)
Total items never reclassified to net income	(24,859)	17,333
Items reclassified subsequently to net income upon derognition		
Exchange differences arising on translating foreign operations	15,467	(18,458)
Cash flow hedges		
Gains (losses) arising during the period	(4,965)	8,055
Reclassification of gains included in net income	3,100	1,406
Share of other comprehensive income of associates	4,105	(2,499)
Income tax	(4,081)	2,699
Total items reclassified to net income upon derecognition	13,626	(8,797)
OTHER COMPREHENSIVE INCOME	**(11,233)**	**8,536**
TOTAL COMPREHENSIVE INCOME	**112,181**	**124,683**

NET INCOME ATTRIBUTABLE TO	THIS YEAR	LAST YEAR
Owners of the Company	105,587	104,584
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	123,414	116,147
EARNINGS PER SHARE (BASED ON NET INCOME)		
Basic earnings per share	0.81	0.75
Diluted earnings per share	0.69	0.60
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO		
Owners of the Company	101,444	110,554
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	112,181	124,683