



European Financial Reporting Advisory Group ■

DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON THE AMENDMENTS TO IAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org or uploaded via our website by 23 September 2011

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the Amendments to IAS 1 *Presentation of Other Comprehensive Income* (the Amendments). In order to do that, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

CNC - Comissão de Normalização Contabilística

- (b) Are you a:

Preparer User Other (please specify)

Public Authority

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(c) Please provide a short description of your activity:

Accounting Standard Setter

(d) Country where you are located:

Portugal

(e) Contact details including e-mail address:

cecnc@igf.min-financas.pt

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes

No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No further comments

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 4 and 9 of Appendix 3. To summarise, EFRAG’s initial assessment is that, for preparers, the Amendments would involve no ongoing incremental costs compared to the existing

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requirements, but would require some one-off incremental costs to understand and implement the Amendments. These costs are not expected to be significant. For users, the Amendments are not expected to result in any one-off incremental costs, and are likely to result in ongoing cost savings.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 4 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 12 and 13 of Appendix 3. To summarise, EFRAG’s initial assessment is that the Amendments do not affect benefits for preparers in any way, and the users are likely to benefit from the Amendments, as the information resulting from them will assist users in their analysis.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

- 5 EFRAG has tentatively concluded that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

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- 6 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes

No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

APPENDIX 1 A SUMMARY OF THE AMENDMENTS

Background

- 1 Items of other comprehensive income include those that can be reclassified subsequently to profit or loss when specific conditions are met, and those that are never reclassified to profit or loss. IFRSs do not contain a *principle* for determining what can be reclassified subsequently to profit or loss (recycle) and what cannot. These requirements are specified in individual standards. At present, all items of other comprehensive income are presented together regardless of whether they can be subsequently reclassified to profit or loss or not.

The issue

- 2 Considering that the number of items being reported in other comprehensive income, particularly items that will not be reclassified subsequently to profit or loss, was likely to increase because of the projects on financial instruments and pensions, the IASB decided that it was necessary to make the presentation of other comprehensive income clearer.

What has changed?

- 3 To achieve greater clarity, the Amendments:
- (a) Change the non-mandatory title of the ‘statement of comprehensive income’ to the ‘statement of profit or loss and other comprehensive income’ (other titles continue to be permitted).
 - (b) Require an entity to present items of other comprehensive income that can be reclassified subsequently to profit or loss (recyclable) separately from those that will never be reclassified to profit or loss (non-recyclable).
 - (c) Require an entity to present income tax related to recyclable items of other comprehensive income separately from income tax related to non-recyclable items, if other comprehensive income is presented before tax.
- 4 The Amendments *do not*:
- (a) Address what is recognised in profit or loss and what is recognised in other comprehensive income; or
 - (b) Address recycling issues, i.e., what can be reclassified (recycled) subsequently to profit or loss and what cannot.

The requirements of individual IFRS continue to apply in determining whether an item of income or expense is recognised in profit or loss or in other comprehensive income; and in determining whether or not an item of other comprehensive income can subsequently be reclassified in profit or loss.

When do the Amendments become effective?

- 5 The Amendments become effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

APPENDIX 2

EFRAG’S TECHNICAL ASSESSMENT OF THE AMENDMENTS AGAINST THE ENDORSEMENT CRITERIA

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG’s capacity of contributing to the IASB’s due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG’s role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG’s thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:
 - (a) are not contrary to the principle of ‘true and fair view’ set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
 - (b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it would be conducive to the European public good to adopt the Amendments.

Approach adopted for the technical evaluation of the Amendments

- 2 The Amendments introduce three changes to IAS 1 *Presentation of Financial Statements*, which are considered separately below. In particular, the Amendments:
 - (a) Change the non-mandatory title of the ‘statement of comprehensive income’ to the ‘statement of profit or loss and other comprehensive income’ (other titles continue to be permitted).
 - (b) Require an entity to present separately items of other comprehensive income that may be reclassified subsequently to profit or loss (recyclable) separately from those that cannot be reclassified to profit or loss (non-recyclable).
 - (c) Require an entity to present income tax related to recyclable items of other comprehensive income separately from income tax related to non–recyclable items, if other comprehensive income is presented before tax.

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Amendment A – Change to the title

- 3 The quality of information provided will not be affected by the change in the non-mandatory title.

Amendment C – Allocation of income tax to two groups of items of other comprehensive income

- 4 EFRAG observes that the requirement to allocate income tax to separate groups of other comprehensive income is consistent with the current requirement in paragraph 90 of IAS 1 *Presentation of Financial Statements* to disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes. Therefore, the overall quality of information provided will not be affected by the requirement to present income tax related to items of other comprehensive income that can be reclassified to profit or loss (recyclable) separately from income tax related to items of other comprehensive income that will never be reclassified, if other comprehensive income is presented before tax.

Amendment B – Disaggregation of items of other comprehensive income

Relevance

- 5 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 6 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.
- 7 The Amendments do not affect the content of other comprehensive income, as they do not address the issue of which items should be recognised in other comprehensive income. Although the Amendments do not change the reclassification requirements set by individual IFRS (i.e., what can be reclassified to profit or loss and what cannot), they would result in a clear presentation of two types of items of other comprehensive income. This will help users to decide which items can potentially affect profit or loss and should be taken into account in projecting future cash flows, without referring to the requirements of each individual IFRS. Thus information resulting from this Amendment will be relevant for the users of financial statements.
- 8 EFRAG’s overall initial assessment is that the Amendments, on balance, would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

Reliability

- 9 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

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- 10 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 11 EFRAG notes that the Amendments do not affect the content of other comprehensive income (i.e., 'what is presented'), rather they specify how different types of items should be displayed (i.e., 'how it is presented').
- 12 As the Amendments do not affect 'what is presented', the reliability of information from the content perspective is not affected.
- 13 In respect of 'how it is presented', entities would follow the requirements of individual IFRS to determine whether an item of other comprehensive income may be subsequently reclassified or not. This exercise does not involve significant judgements or estimates, and would not raise any significant issues concerning freedom from material error and bias, faithful representation or completeness.
- 14 For the reasons stated above, EFRAG's overall initial assessment is that the Amendments satisfy the reliability criterion.

Comparability

- 15 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 16 EFRAG has considered whether the Amendments result in transactions that are:
 - (a) economically similar being accounted for differently; or
 - (b) transactions that are economically different being accounted for as if they are similar.
- 17 As indicated above, the Amendments do not address accounting requirements; rather they specify presentation requirements for items recognised within other comprehensive income. These presentation requirements will bring more clarity about which items of other comprehensive income can be subsequently reclassified to profit or loss, and which cannot. This will positively affect comparability between entities.
- 18 For the reasons stated above, EFRAG's overall initial assessment is that the Amendments satisfy the comparability criterion.

Understandability

- 19 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 20 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability. For example, information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable, and vice versa.

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- 21 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.
- 22 EFRAG notes that in applying the Amendments, entities will follow the requirements in the existing standards; therefore the Amendments themselves do not introduce any new complexities that may impair understandability. On the contrary, they would help users to distinguish between items that can potentially affect profit or loss and those that will not, without referring to the requirements of each individual IFRS. This would improve the understandability of information presented in other comprehensive income.
- 23 For the reasons stated above, EFRAG's overall initial assessment is that the Amendments satisfy the understandability criterion.

True and Fair

- 24 EFRAG has tentatively decided that the information resulting from the application of the Amendments would not be contrary to the principle of true and fair view.

European public good

- 25 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendments.

Conclusion

- 26 For the reasons set out above, EFRAG's has tentatively decided that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

APPENDIX 3

EFRAG’S EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENT

- 1 EFRAG has also considered whether, and if so to what extent, implementing the Amendments in the EU might result in incremental costs for preparers and/or users, and whether those costs are likely to be exceeded by the benefits to be derived from their adoption.

Cost for preparers

- 2 EFRAG has carried out an initial assessment of the cost implications for preparers resulting from the Amendments.
- 3 EFRAG notes that the Amendments do not require capturing or tracking any *new* information, rather they require presenting the *existing* information in a specified way.
- 4 As such, EFRAG’s initial assessment is that the Amendments would involve no ongoing incremental costs compared to the existing requirements. However, some costs would arise as preparers understand and implement the Amendments for the first time, but these costs are not expected to be significant.

Costs for users

- 5 EFRAG has carried out an initial assessment of the cost implications for users resulting from the Amendments.
- 6 As indicated above, the Amendments do not result in any new information; rather the existing information will be presented in a specified way.
- 7 At present, users in performing their analysis need to refer to individual standards in order to determine whether or not an item of other comprehensive income can be subsequently reclassified to profit or loss. The Amendments eliminate that necessity, and therefore are likely to reduce the time required for a user to perform an analysis.
- 8 The Amendments are not expected to result in any incremental costs for users to incorporate the new requirements in their analysis.
- 9 Overall, EFRAG’s initial assessment is that the Amendments are likely to result in cost savings for users.

Benefits for preparers and users

- 10 EFRAG has carried out an initial assessment of the benefits for users and preparers resulting from the Amendments
- 11 As indicated above, the objective of the Amendments is to achieve greater clarity by presenting separately two types of items of other comprehensive income. This would assist users in forecasting future cash flows.
- 12 The Amendments do not affect benefits for preparers in any way (i.e., benefit neutral).

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- 13 Overall, EFRAG's initial assessment is that users are likely to benefit from the Amendments, as the information resulting from them will assist users in their analysis.

Conclusion

- 14 EFRAG's overall assessment is that the overall benefits of the separate presentation of two types of items of other comprehensive income and associated tax effects are likely to outweigh one-off incremental costs for preparers associated with understanding and implementation of the Amendments.