

The costs and benefits of implementing the Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (the Amendments).
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations that EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of this report, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A summary of the Amendments

Background

- 4 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

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other comprehensive income are presented together regardless of whether they can be subsequently reclassified to profit or loss or not.

The issue

- 5 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?

- 6 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.
- 7 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?

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

EFRAG's initial analysis of the costs and benefits of the Amendments

- 9 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:
- (a) *Costs* – for preparers, the Amendments would involve no ongoing incremental costs compared to the existing requirements, but would require some one-off incremental costs to understand and implement the Amendments. These

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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.

- (b) *Benefits* – 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.

- 10 EFRAG published its initial assessment and supporting analysis on 28 July 2011. It invited comments on the material by 23 September 2011. In response, EFRAG received five comment letters. Four respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. The other respondent did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendments in the EU, but supported EFRAG's recommendation that the Amendments be adopted for use in Europe.

EFRAG's final analysis of the costs and benefits of the amendments

- 11 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented in the paragraphs below.

Cost for preparers

- 12 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.
- 13 As such, EFRAG's 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

- 14 As indicated above, the Amendments do not result in any new information; rather the existing information will be presented in a specified way.
- 15 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.
- 16 The Amendments are not expected to result in any incremental costs for users to incorporate the new requirements in their analysis.
- 17 Overall, EFRAG's assessment is that the Amendments are likely to result in cost savings for users.

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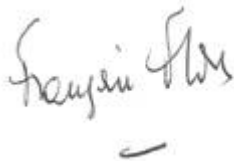
Benefits for preparers and users

- 18 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.
- 19 The Amendments do not affect benefits for preparers in any way (i.e., benefit neutral).
- 20 Overall, EFRAG's assessment is that users are likely to benefit from the Amendments, as the information resulting from them will assist users in their analysis.

Conclusion

- 21 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.

21 October 2011



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