EFRAG

European Financial Reporting Advisory Group

22 September 2010
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/ Madam

IASB ED *Presentation of Items of Other Comprehensive Income (Proposed amendments to IAS 1)*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IASB Exposure Draft *Presentation of Items of Other Comprehensive Income (Proposed amendments to IAS 1)* ("the ED"), which was issued in May 2010. This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would have been reached in its capacity of advising the European Commission on endorsement of the definitive IFRS.

EFRAG is broadly supportive of the efforts of the IASB and FASB (the Boards) to achieve greater convergence in the presentation of financial statements and to improve financial reporting. EFRAG also understands the importance of issues related to the presentation of items of other comprehensive income (OCI), especially for other IASB projects, such as Pensions and Financial Instruments.

However, EFRAG strongly objects to the IASB's initiative to proceed with the proposal to present all non-owner changes in equity in a *single statement* of comprehensive income and to eliminate the option of presenting performance in two statements (i.e., an income statement and a statement of other comprehensive income). We believe that first a proper debate is necessary on fundamental issues related to performance reporting such as (a) the notion of performance and its relationship with business models, (b) the content of performance statement(s), including the principles that underpin comprehensive income, and (c) recycling. These issues are not currently considered by the IASB within its Financial Statements Presentation project. As part of this debate, thorough research should be carried out to determine what information is most important as a basis for meaningful communication to users and what information is needed for an analysis of an entity's performance.

We do not support the proposal to require a single statement of comprehensive income because we believe it would not, in substance, result in any change or improvement to the current financial reporting. Indeed, if an entity currently chooses the option to present performance in two statements, the statement displaying components of OCI is required to be presented immediately after the income statement. Therefore, all non-owner changes in equity are already presented together with equal prominence and items of profit or loss are already – and even better – distinguished from items of OCI.

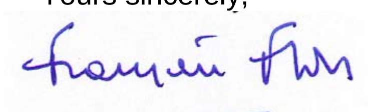
EFRAG supports overall the proposal to present separately items of OCI that are reclassified to profit or loss (recyclable) and those that are not reclassified to profit or loss (non-recyclable). However, EFRAG believes that it would be more efficient to finalise this part of the proposal through the annual improvements process rather than to proceed with the separate amendment.

In summary, EFRAG believes that the proposal to present a single performance statement fails to satisfy the IASB's objective to improve the quality of financial reporting and for that reason *should be abandoned*, while the proposal to require disaggregation of items of OCI should be finalised within the annual improvements process.

Our detailed responses to the questions in the ED are included in the Appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Irina Ipatova or myself.

Yours sincerely,



Françoise Flores

EFRAG, Chairman

Appendix

EFRAG's comment on the due process

1 EFRAG believes that the question of the *number* of performance statements is secondary and addresses the "form" rather than "substance" of performance reporting. In our view, the fundamental conceptual issues related to performance reporting should be debated prior to deciding on their presentation. In this respect, EFRAG agrees with the alternative view on the due process of Jan Engström, who voted against publication of the ED, as we find his arguments more convincing than arguments of other Board members in favour of the proposals.

2 One of the most critical issues is the notion of performance. This issue does not seem to be a subject of discussion within the Board's current projects, nor does it seem to have been given due consideration by the Board. The major reason for this could be that the current IFRS *Framework for the Preparation and Presentation of Financial Statements* is based on the "asset and liability approach", which takes as its starting point for financial reporting the valuation of assets and liabilities, whilst performance elements (i.e., income and expenses) are defined by reference to increase or decrease in assets and liabilities. The same approach seems to be taken in the Conceptual Framework and Revenue projects.

3 One may argue instead that the objective of financial reporting is to provide financial information about the reporting entity that is *useful* to existing and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Hence the information that the users generally focus on relates to an entity's past performance, which is used to forecast the future performance. Therefore, we believe that the issue of performance reporting should be given proper attention.

4 We note that different users of financial statements currently have different interpretations as to what constitutes "performance". There are many aspects of an entity's performance that are given different weight by different people. We believe that, as first step in the debate, it is important to identify principles as to what constitutes performance. Such principles then could be used to determine the content of performance statement(s), and the question of the number of statements would follow.

5 In addition, EFRAG believes that the proposal to require a single statement of comprehensive income would not result in any change or improvement to the current financial reporting. The detailed arguments are set under our response to Question 2 of the ED.

6 In summary, EFRAG disagrees with the arguments for dealing with the number of performance statements urgently. We therefore strongly object to the IASB's initiative to address this issue prior to a proper debate on the conceptual issues underlying the performance reporting, such as the notion of performance (including its relationship with business models), the content of performance statements (including the principles that underpin comprehensive income) and recycling. These issues are

not currently considered by the IASB within its Financial Statements Presentation project.

7 EFRAG understands the importance of the issues related to the presentation of items of OCI for other IASB projects, such as Pensions and Financial Instruments. Whilst EFRAG supports overall the IASB proposals related to disaggregation of items of OCI, EFRAG believes that it would be more efficient to address these issues via the annual improvements process rather than to proceed with the separate amendment.

EFRAG's responses to the questions in the ED

Question 1 – Statement of profit or loss and other comprehensive income (title)

The Board proposes to change the tile 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?

EFRAG's response to Question 1

EFRAG supports the proposed change of the title of the statement showing all non-owner changes in equity, if an entity chooses an option to present performance in a single statement.

8 Putting aside our overall objection to the IASB's decision to eliminate the option of presenting performance in two statements, EFRAG supports the proposal to change the title of the statement showing all non-owners changes in equity to the "Statement of profit or loss and other comprehensive income". We also support the retention of an option to use other titles for the performance statement(s).

9 We believe that if an entity chooses to present performance in a single statement, then the proposed title gives users a clearer message about the content of the statement than the current "Statement of Comprehensive Income".

10 In addition, we would suggest the following changes in drafting:

(a) Paragraph 83(b) – replace "comprehensive income" with "profit or loss and other comprehensive income" to make the wording consistent with the proposed changes to the title of a single statement.

(b) Paragraph 10 – remove the newly inserted sentence with the example, as paragraph 10 allows using other titles for *any* primary statement and the proposed example relates only to the performance statement.

(c) Guidance on implementing IAS 1, example 2 (page 16) – remove the example, as it does not reflect the change made to the title and does not highlight the clear distinction between the items of profit or loss and OCI.

Question 2 – Statement of profit or loss and other comprehensive income (single statement)

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?

EFRAG's response to Question 2

EFRAG strongly objects to the IASB's initiative to address this issue prior to a discussion on fundamental issues related to performance reporting (e.g., the notion of performance, the content of profit and loss and other comprehensive income). EFRAG also observes that this proposal would not, in substance, result in any change or improvement to the current financial reporting, and therefore it does not support it.

11 As stated earlier in our letter, EFRAG strongly objects to the IASB's initiative to remove the option of presenting performance in two statements prior to a proper debate on fundamental issues underlying performance reporting. In particular, we believe that the debate should cover the notion of performance, the content of the performance statement(s), allocation of items to the income statement or to OCI, and the notion of recycling.

12 There are numerous arguments highlighting the critical importance of the "net income" line for the users' analysis and advocating the retention of the two statements option, which we would not reiterate in this letter. EFRAG does not agree with the arguments of the IASB, included in paragraph BC35 of the ED, that the proposal to require a single statement of performance should *improve* the ability of users to understand the financial reporting of all non-owner changes in equity. We believe that this proposal would not, in substance, result in any change or improvement to the current financial reporting, and therefore we do not support it.

13 We are not convinced by the argument that the comparability will be improved by eliminating option currently available in IAS 1. The option to present a *single* performance statement was introduced by the revised IAS 1 issued in 2007 and is not widely used in European practice. In fact, the majority of entities in Europe do not choose that option and present performance in two statements.[1]

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1 EFRAG was informed of a post-implementation review conducted by the French Accounting Standard Setter (ANC) of the revised IAS 1, which introduced the option to present performance in a single statement. The review covered 509 listed entities included in the major indexes in the markets requiring IFRS reporting for consolidated financial statements, including 449 entities in 17 countries in Europe, 19 entities in South Africa, 8 entities in Turkey, 18 entities in Australia and 15 entities in New Zealand. The review showed that 91% of the major listed companies required to apply IFRS in their consolidated financial statements present performance in two statements. It also showed that 94% of the companies electing to present performance in two statements present those statements consecutively.

14 We also are not convinced by the argument that the proposal to require a single performance statement will make the distinction between profit or loss and OCI clearer. Although "comprehensive income" is not a defined term, when developing proposals in the Pensions project, the IASB acknowledged that the nature and characteristics of items included in OCI was conceptually different from the nature of items included in profit and loss, and that they had different predictive value. For these reasons the IASB believes that they need to be distinguished. The distinction between profit or loss and OCI items is much clearer when they are presented in two separate statements.

15 We note that under the current requirements if an entity chooses the option to present performance in two statements, the statement displaying components of OCI is required to be presented immediately after the income statement. Therefore, all non-owner changes in equity are already presented together with equal prominence and items of profit or loss are already – and even better – distinguished from items of OCI.

16 In addition to the above, in March 2009, EFRAG issued for public comment *Performance Reporting: A European Discussion Paper.* Amongst other issues, the Discussion Paper addressed the question of a single performance statement. As indicated in the summary of comments received in response to the Discussion Paper, which was published by the EFRAG and the participating European national standard-setters in April 2010, the majority of respondents did not support the single performance statement approach.

Question 3 – Presentation of other comprehensive income (disaggregation)

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?

EFRAG's response to Question 3

EFRAG supports the proposal overall; however believes that it would be more efficient to finalise this issue through the annual improvements process rather than to proceed with the separate amendment.

17 EFRAG overall supports the proposal to present separately items of OCI that are reclassified to profit or loss (recyclable) and those that are not reclassified to profit or loss (non-recyclable), as we believe that this will increase the clarity and usefulness of information presented in financial statements and will improve financial reporting.

18 EFRAG also understands the importance of issues related to the presentation of items of OCI, especially for other IASB projects, such as Pensions and Financial

Instruments, and agrees that the effective date for the disaggregation amendment should be aligned with the effective dates for the amendments to IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. For this reason, EFRAG supports the IASB initiative to address the proposed amendments separately from the Exposure Draft *Financial Statements Presentation*. However EFRAG believes that it would be more efficient to finalise the disaggregation amendment as part of the Annual Improvements process without a separate re-exposure within the next Annual Improvements cycle.

19 In addition, EFRAG notes that the Board may consider extending the proposals to present separately the *accumulated* balance of items of OCI that may be subject to recycling. We believe that this would assist users in understanding better the potential future effects of the items included in the OCI and would increase usefulness of information presented in financial statements.

Question 4 – Presentation of other comprehensive income (income tax)

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between the 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?

EFRAG's response to Question 4

EFRAG observes that the proposal to allocate income tax to separate groups of other comprehensive income is consistent with the current requirements in IAS 1 and agrees that the issue should not be re-discussed at this stage.

20 EFRAG observes that current IAS 1 paragraph 90 requires disclosure of the amount of income tax relating to each component of OCI either on the face of the primary statement or in the notes. We believe that the proposal to allocate income tax to separate groups of OCI is consistent with the current requirement and with the proposal to disaggregate items of OCI into recyclable and non-recyclable groups.

21 Consistent with our comments on Question 3, we believe that it would be more efficient to finalise this proposal as part of the Annual Improvements process.

Question 5 – Benefits and costs

In the Board's assessment:

(a) The main benefits of the proposals are:

   (i) Presenting all non-owner change to 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?

EFRAG's response to Question 5

EFRAG does not agree with the Board's assessment of benefits in relation to the proposal to require a single performance statement (see response to Question 2). EFRAG agrees with the Board's assessment of the benefits in relation to the disaggregation of items in OCI and related income tax (see responses to Questions 3 and 4).

22 As indicated in our response to Question 2, EFRAG does not agree with the arguments of the IASB that the proposal to require a single statement of performance would *improve* the ability of users to understand the financial reporting of all non-owner changes in equity.

23 As indicated in our responses to Questions 3 and 4, EFRAG agrees that the disaggregation of items and the related income tax in OCI into recyclable and non-recyclable groups would improve the clarity and usefulness of information presented in financial statements.

24 Overall EFRAG agrees with the preliminary assessment of costs related to the proposals.

Other comments

Transitional requirements

25 As noted in paragraphs 30 and 31 of the Basis for Conclusions, the Board proposes that entities should apply the proposed amendments retrospectively.

26 EFRAG's strong preference is that all new or amended accounting requirements should be applied retrospectively, because this significantly enhances the comparability and usefulness of the information provided. Therefore, although we do not agree with the IASB on the due process applied to the proposals in this ED, if the Board were to proceed with these proposals, we would support the proposed retrospective application.

27 We also note that the ED itself does not include transitional requirements. We agree that in accordance with paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* if an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions, the changes should be applied retrospectively. Nevertheless, we believe that it would be clearer if the transitional requirements are included explicitly in the text of the amendment.