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## **Primary Financial Statements**

### **Issues Paper on Other Comprehensive Income**

#### **Objective**

- 1 The objective of this paper is to discuss the IASB staff proposals about better ways to communicate information about other comprehensive income (OCI).

#### **Better ways to communicate information about other comprehensive income (Agenda Paper 10.04)**

##### *Improve the labelling and ordering of OCI items*

- 2 The IASB staff highlighted that some users of financial statements think that the term OCI and the notion of recycling is confusing. The IASB staff also noted that many users of financial statements do not analyse OCI items in detail because they see it as a black box or 'dumping ground' for anything controversial.
- 3 To address this issue, the IASB staff recommends renaming the two categories in the OCI section of the statement(s) of financial performance as follows:
  - (a) 'remeasurements reported outside profit or loss' (previously OCI items that will not be reclassified subsequently to profit or loss); and
  - (b) 'income and expenses to be included in profit or loss in the future' (previously OCI items that will be reclassified subsequently to profit or loss).
- 4 The IASB staff also recommends introducing a new subtotal between the two categories called 'income after remeasurements reported outside profit or loss'.

<b>Current presentation</b>	<b>Revised presentation</b>
<b>Revenue</b> .... <b>Pre-tax profit</b> <ul style="list-style-type: none"> <li>• Taxation</li> </ul> <b>Profit</b> <ul style="list-style-type: none"> <li>• OCI items that will not be reclassified subsequently to profit or loss</li> <li>• OCI items that will be reclassified subsequently to profit or loss</li> </ul> <b>Comprehensive income</b>	<b>Revenue</b> .... <b>Pre-tax profit</b> <ul style="list-style-type: none"> <li>• Taxation</li> </ul> <b>Profit</b> <ul style="list-style-type: none"> <li>• Remeasurements reported outside profit or loss</li> </ul> <b>Income after remeasurements reported outside profit or loss</b> <ul style="list-style-type: none"> <li>• Income and expenses to be included in profit or loss in the future</li> </ul> <b>Comprehensive income</b>

- 5 It is argued that removing any reference to OCI in the labels used in the statement(s) of financial performance, a term that is not well understood, and dividing OCI items into two clearly labelled categories may improve understandability and result in information about OCI being less likely to be ignored by users.
- 6 It is also argued that the issue of whether all income and expenses should be included in profit or loss is of great importance to many. The additional subtotal would exclude only those items of income and expense that will be reclassified to profit or loss in a later period (i.e. the subtotal would reflect a 'clean-surplus') and would also help clarify the effect of OCI items on current and future profit.

*Remove existing presentation options in OCI*

- 7 In Agenda Paper 10-04 the IASB staff notes that IAS 1 *Presentation of Financial Statements* currently provides entities the option of presenting OCI items either net of related tax effects or before related tax effects with one amount shown for the aggregate amount of income tax relating to those items (paragraph 91 of IAS 1). It also provides entities the option of presenting reclassification adjustments in the statement(s) of financial performance or in the notes (paragraph 94 of IAS 1).
- 8 IASB staff notes that presentation options can add complexity and make information presented less comparable, particularly if the options involve a free choice, rather than being based on an entity's specific circumstances. Therefore, the IASB staff thinks that it should explore whether there is demand to remove these options either by doing outreach or in a Discussion Paper.

*Developing investor education material*

- 9 The IASB staff proposes developing investor education material (e.g. webinars) in the form of case studies that illustrate why it is important for users of financial statements to consider OCI items in their analysis of companies. It is argued that this would enhance awareness of the importance of OCI and how OCI may affect the analysis of users of financial performance.

*EFRAG Secretariat analysis*

- 10 Currently a range of different items (e.g. the effect of changes in pension obligations, fixed asset revaluations, cash flow hedges, changes in the carrying amount of equity investments and foreign currency translation differences) are presented in OCI. The IASB is expected to focus only on improving the presentation of items currently reported in OCI rather than on which items should be included in OCI.
- 11 The EFRAG Secretariat notes that OCI includes important information about financial performance and that users tend to not to consider the information included in OCI. Furthermore, entities typically do not provide comments on OCI items in their management commentary, in press releases or presentation to analysts, nor present Alternative Performance Measures (APM) reflecting OCI.
- 12 Improving the presentation of items included in OCI might help users to better understand entities' financial performance and reduce the tension related to the distinction between profit or loss and OCI (or other new label). Nonetheless, the EFRAG Secretariat notes that the IASB staff proposal would mean that the term 'other comprehensive income' would no longer be used. This may create new uncertainty about the meaning of such line items. In addition, it will be challenging to improve the presentation of OCI without addressing the definition of performance, the use of OCI and the need for recycling (as already requested in 2011 when the IASB issued amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* to improve presentation of OCI).
- 13 We also question whether the term "remeasurements" rightly describes the items mentioned in paragraph 10 above. Furthermore, if an additional subtotal is to be

required, the EFRAG Secretariat considers that the items that are going to be recycled in the future should be presented first.

- 14 Finally, the EFRAG Secretariat highlights that relevant information about OCI is also provided in the statement of financial position (e.g. separate components of equity). Thus, the EFRAG Secretariat considers that it would be useful to consider both the statement of financial position and the statement of financial performance when discussing improvements to the presentation of OCI.

**Questions for EFRAG TEG and EFRAG CFSS members**

- 15 Does EFRAG TEG-CFSS support the IASB staff proposal to rename the two categories in the OCI section of the statement(s) of financial performance?
- 16 Does EFRAG TEG-CFSS agree with the IASB staff proposed approach to introduce a new subtotal between the two categories called 'income after remeasurements reported outside profit or loss'?