

Changes to the presentation of other comprehensive income – amendments to IAS 1

The IASB recently issued amendments to IAS 1 *Presentation of Financial Statements* on the presentation of other comprehensive income (OCI). Originally part of the joint project on Financial Statement Presentation, the IASB and US FASB (the Boards) have each decided to bring certain aspects of that project forward, and make separate changes to IFRS and US GAAP.

Currently, only a limited number of transactions are recognised in OCI. However, ongoing changes to IFRS, such as IFRS 9 *Financial Instruments* and the recent amendments to IAS 19 *Employee Benefits*, will lead to increased recognition of items within OCI. Therefore, the IASB decided to accelerate this element of the broader project on financial statement presentation by proposing limited changes to IAS 1 to improve the consistency and clarity of the presentation of items of OCI in the short term.

What has changed and what continues to apply?

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified (see Box 1).

Box 1: Grouping of OCI items under the amendments to IAS 1

OCI items that can be reclassified into profit or loss:

- ▶ Foreign exchange gains and losses arising from translations of financial statements of a foreign operation (IAS 21)
- ▶ Effective portion of gains and losses on hedging instruments in a cash flow hedge (IAS 39)

OCI items that cannot be reclassified into profit or loss:

- ▶ Changes in revaluation surplus (IAS 16 and IAS 38)
- ▶ Actuarial gains and losses on defined benefit plans (IAS 19.93A)
- ▶ Gains and losses from investments in equity instruments measured at fair value through OCI (IFRS 9)
- ▶ For those liabilities designated at fair value through profit or loss, changes in fair value attributable to changes in the liability's credit risk (IFRS 9)

The amendments do not change the nature of the items that are currently recognised in OCI, nor does it impact the determination as to whether items in OCI are reclassified through profit or loss in future periods.

A contentious proposal in the IASB's exposure draft that preceded the amendments would have required the statement of comprehensive income to be presented as a single, continuous statement (i.e., eliminating the current option of presenting two separate statements). However, this was not carried forward in the final amendments. Consequently, reporting entities continue to have the option to present profit or loss and OCI either in a single continuous statement or in two separate, but consecutive, statements.

The amendments do not change current requirements to allow items of OCI to be presented either net of tax or gross of tax with one amount shown for the aggregate amount of income tax related to the OCI items. In addition, entities are still required to disclose the amount of income tax related to each OCI item either within the statement or in the notes.

Why the amendments?

The IASB wanted to address a perceived lack of distinction between different items in OCI, as well as a lack of clarity in the presentation of those items. Presently, some items in OCI could have a considerable effect on the financial performance of the entity if they were to recycle through profit or loss, but this impact may be unclear based on the current presentation. The amendments address this issue by grouping OCI items together based on whether they can or cannot be recycled into profit or loss.

A number of respondents to the exposure draft requested that the IASB also address the issue of the lack of clear underlying principles for the recognition of OCI items (as well as for the reclassification of such items to profit or loss) within IFRS. However, the IASB did not address this issue in the amendments. The IASB acknowledges that further work is needed to develop a clear principle for measuring performance items such as OCI and that this may take a considerable amount of time to develop. There is a possibility that this broader issue will be taken up by the IASB within the financial statement presentation project.

What is the impact?

Although the change in presentation of OCI is relatively minor with respect to the overall financial statements, it could allow financial statement users to more easily identify the potential impact that OCI items may have on future profit or loss. Because the amendments only affect the presentation of items that are already recognised in OCI, we do not expect there to be significant costs related to applying the amendments.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 July 2012.

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