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Accounting Standards Committee of Germany ® Der Standardisierungsrat

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear David,

Exposure Draft ED/2010/5 Presentation of Items of Other Comprehensive Income – Proposed Amendments to IAS 1

On behalf of the German Accounting Standards Board (GASB), I am writing to comment on the Exposure Draft ED/2010/5 *Presentation of Items of Other Comprehensive Income – Proposed Amendments to IAS 1* (herein referred to as ´the ED´). We appreciate the opportunity to comment on this Exposure Draft.

General remarks

We do not consider the IASB's proposal of eliminating the 'two statement approach option' (i.e. presenting a statement of profit or loss and a separate statement of other comprehensive income) appropriate. We do not believe that an adequate case is made in the exposure draft as to why the presentation of a single performance statement represents an improvement compared to the current provisions. Furthermore, we believe that the development of accounting standards should be based on an appropriate conceptual basis. We are of the opinion that the ED lacks such a conceptual basis. The concept of performance is fundamental to financial reporting and we strongly believe that there needs to be a proper discussion and debate around this concept and how performance is then to be presented in the financial statements. Therefore, the proposal to present in one continuous statement both the items presented in OCI and the items presented in profit or loss is not of great value and in our view does not result in a significant improvement of financial reporting that would justify the proposed change.

Moreover, we believe that the IASB should develop a set of coherent principles to guide the presentation and treatment of other comprehensive income, particularly in relation to subsequent reclassification (recycling) to profit or loss.

Given these unresolved issues, we do not support the current proposal to present all non-owner changes in equity in a single statement with two separate sections: profit or loss and all other items of other comprehensive income. Instead, we would encourage the Board to initiate a project related to the financial statement presentation, in which the substantial issues outlined above are addressed.

Please find our detailed comments on the questions raised in the ED in the appendix of this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

Appendix

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

The Board proposes to change the title 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?

We disagree with the proposal to change the title of the statement of comprehensive income to ´Statement of profit or loss and other comprehensive income´ since we believe this would not result in any significant improvement on the current title. The proposed change is cosmetic and does not address the fundamental issue of the purpose of the performance statements. Moreover, we do not believe it will have much effect on financial reporting because it is voluntary. In our opinion, changing the title would fail to improve clarity or comparability considering that the current title neither has led to any serious confusion nor is its application obligatory.

Furthermore, we hesitate to support the argument that "the IFRS community is still troubled by the use of the term comprehensive in the title" [BC 21]; in this respect, we have experience to the contrary. Therefore, we would suggest retaining the current title as widely established and well understood.

Additionally, we think that using the term 'comprehensive income' instead of 'total comprehensive income' would be sufficient for users' needs in the implementation guidance.

Question 2 – Statement of profit or loss and other comprehensive income

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?

We do not support the Board's proposed requirement to present all non-owner changes in equity in a single statement with two separate sections: profit or loss and items of other comprehensive income and therefore, to remove the option of presenting performance in two statements. As stated earlier in our general remarks we think that before addressing presentation issues we need a proper debate on fundamental issues underlying performance reporting. We especially think that the debate should

cover the notion of performance, the content of the performance statement, allocation of items to the income statement or to other comprehensive income, and the notion of recycling. Furthermore, we strongly believe that changes to IFRS should only be made if they result in significant improvements in IFRS reporting and we are not convinced that a single statement provides any additional or more relevant information for users than can be achieved through two statements.

Additionally, we are not convinced by the argument that the proposed single statement provides more consistency in presentation or makes financial statements more comparable as against the currently existing option in IAS 1. We do not believe that it is difficult to compare the financial reports of two companies simply because one of them reports profit or loss and items of other comprehensive income in two statements while the other reports both in one statement. Moreover, the majority of German entities present performance in two statements and thus, at least in Germany, no inconsistency exists.

Question 3 – Presentation of items of other comprehensive income

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?

As long as there is no concept for recycling or not, we see merit in separating items that will come back to profit and loss at some other point in time from those that will not. At the same time it would be informative to separate those items in profit or loss revived from an earlier recognition in OCI. We refer to our general remarks.

From a relevance perspective, we do, however, believe that a detailed allocation should be presented in the notes rather than on the face of the statement.

IASB Question 4 – Presentation of items of other comprehensive income

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

In line with our general remarks we would prefer the IASB to develop a concise concept of comprehensive income including the notion of recycling – if any – before consequential amendments regarding the allocation of taxes are being brought forward. Nonetheless, if the IASB were to finalise the current proposals, we would agree with the IASB's proposal to allocate income tax to separate groups of other comprehensive income as a logical consequence of the proposed amendment and to disaggregate items of other comprehensive income into recyclable and non-recyclable groups. Furthermore, consistent with our comments on Question 3, we believe that it would be more effective to finalise this proposal after a convincing conceptual basis has been developed.

Question 5 – Benefits and costs

In the Board's assessment:

a) the main benefits of the proposals are:
   i. presenting all non-owner changes in 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?

We refer to our general remarks.

Question 6 – Other comments

Do you have any other comments on the proposals?

We refer to our general remarks.