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This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

What does this section cover?

This section discusses presentation in the statement(s) of profit or loss and other comprehensive income, including:

- the purpose of the statement(s) of profit or loss and other comprehensive income;
- principles and concepts for presentation in profit or loss or OCI;
- how these principles and concepts apply to current and proposed OCI items; and
- suggestions for changing the term “comprehensive income”.

Why is this section important? What problems will this section help address?

Currently there is no principle in IFRS to determine:

- which items of income or expense should be presented in profit or loss and which should be reported in OCI; and
- when or which items recognised in OCI should be recycled into profit or loss.

What are the IASB’s preliminary views?

The IASB proposes the following:

- The purpose of the statement(s) of profit or loss and other comprehensive income is to depict summarised information about recognised items of income and expense that have been classified and aggregated in a manner that is useful to users in their assessment of the entity’s financial performance.
- The following principles should apply to determine which items of income or expense should be presented in profit or loss or OCI:
    - *Principle 1*: Items of income and expense presented in profit or loss communicate the primary picture of an entity’s financial performance for the reporting period.
    - *Principle 2*: All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information.
    - *Principle 3*: An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss when the reclassification results in relevant information about financial performance in that period.
- Applying the principles, the concepts of bridging items and mismatched remeasurements are used to describe items of income and expense that are presented in OCI.
- Use of the term *comprehensive income* should be changed as follows:
    - “Statement of comprehensive income” changed to “Statement of income and expense”
    - “Total comprehensive income” changed to “Total income less total expense”
    - “Other comprehensive income” changed to “Remeasurements outside profit or loss”

Outline of this section

1. The purpose of this section is to discuss presentation in the statement(s) of profit and loss and other comprehensive income.[1] In particular it will discuss the presentation of profit or loss and OCI focusing on the following main topics:

   (a) What is the problem?

   (b) A description of current IFRS.

   (c) Should the Conceptual Framework include a concept of profit or loss?

   (d) Three alternative approaches to addressing the presentation of profit or loss.

   (e) Suggestions for changes to the term *comprehensive income.*

What is the problem?

2. The Conceptual Framework does not currently include specific guidance on presentation of financial performance in the statement(s) of profit and loss and other comprehensive income.

3. Respondents to the IASB's *Agenda Consultation 2011* identified the reporting of financial performance, (including the use of other comprehensive income (OCI) and recycling) as a key topic that the IASB should address. Views expressed by respondents included:[2]

   (a) The use of non-GAAP measures by many preparers to explain their results is an indication that profit or loss may not be a useful measure of the entity's performance;

   (b) There is a lack of clarity on the roles of profit or loss and OCI in measuring and reporting an entity's performance which has meant that OCI has become a "dumping ground" for anything controversial;

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[1] In this paper the statement(s) of profit and loss and other comprehensive income refers to either: (a) one statement, being a combined statement of profit or loss and other comprehensive income; or (b) two statements, being the statement of profit or loss and the statement of comprehensive income.

[2] Comments received on the *Agenda Consultation 2011* (see Agenda Papers 5A and 5B of the January 2012 IASB Meeting)

(c) Many investors/analysts ignore changes reported in OCI because they are not caused by operating flows from which long-term trends can be inferred; and

(d) The interaction between profit or loss and OCI is unclear, especially the notion of recycling and when or which OCI items should be recycled.

Many of the questions and views raised by respondents involving profit or loss and OCI stem from the fundamental question: “How can financial statements best portray the entity’s performance during the period?”

Purpose of the statement(s) of profit and loss and other comprehensive income

4. Building on the purpose of primary financial statements described in AP 10G(a), it follows that the purpose of the statement(s) of profit or loss and other comprehensive income is to depict summarised information about recognised items of income and expense that have been classified and aggregated in a manner that is useful to users in their assessment of the entity’s financial performance.

5. Information presented in the statements(s) of profit or loss and other comprehensive income is useful in assessing the entity’s past and future financial performance. Therefore aggregation and classification into line items, totals and sub-totals in the statement(s) of profit or loss and other comprehensive income should enhance the predictive nature of the information presented.

Statement(s) of profit and loss and other comprehensive income – Current IFRS

Comprehensive income

6. Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.[3] Put another way, it is the change in the entity’s resources and obligations during a period (other than those

[3] IAS1.7

resulting from contributions of equity, distributions of equity and transactions that are not capable of changing equity eg an exchange of assets or a reclassification).

7. The statement(s) of profit or loss and other comprehensive income present(s) all items of recognised income and expense, aggregated and classified in manner that is helpful for a user's assessment of the entity's capacity to generate future cash flows. Items of income and expense result directly from the measurements of assets and liabilities and changes in them. It follows that the measurement basis of a recognised asset or liability directly determines the relevant amount(s) presented in the statement(s) of profit or loss and other comprehensive income.

Profit or loss and OCI

8. Currently, IFRS requires that the statement(s) of profit and loss and other comprehensive income is presented as either: (a) one statement, being a combined statement of profit or loss and other comprehensive income; or (b) two statements, being the statement of profit or loss and the statement of comprehensive income.[4]

9. Profit or loss is the total that includes all items of income or expense except those items of income or expense recognised in OCI as required or permitted by IFRS. Profit or loss includes reclassification adjustments. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in OCI in the current or previous periods.[5] Reclassification adjustments are also known as recycling adjustments.

10. OCI comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss, as required or permitted by other IFRSs.[6]

Should the Conceptual Framework include a concept for profit or loss?

11. The IASB has previously acknowledged that many investors, creditors, preparers and others view profit or loss as a useful performance measure and that profit or

[4] IAS1.10A

[5] IAS1.7

[6] IAS1.7

loss as a subtotal or a phrase is deeply ingrained in the economy, business and investors' minds. Users from all sectors incorporate profit or loss in their analyses, either as a starting point for analysis or as the main indicator of an entity's performance.[7]

12. Those in favour of retaining profit or loss as a total or sub-total argue that:

    (a) Users are primarily interested in information about profit or loss and its consequences and its capacity to pay dividends. Presenting profit or loss as a total or sub-total therefore supports users' needs.

    (b) Profit or loss provides more useful information about financial performance than comprehensive income because it excludes volatile remeasurement gains and losses that are not predictive of future cash flows and that have little relevance to an entity's financial performance during a period.

    (c) Profit or loss closely reflects the results of actual transactions and therefore provides information about actual cash flows that is useful in predicting future cash flows.

    (d) Profit or loss is closely aligned to an entity's business model and therefore is directly related to management's view of the entity's financial performance.

    (e) A profit or loss total or sub-total results in some items being presented outside profit or loss (currently, in OCI). Presenting some items outside profit or loss allows entities to present separately information about different, or in some cases less relevant, aspects of financial performance.

13. Those who do not favour retaining profit or loss as a total or sub-total argue that:

    (a) Separate display in a single statement of comprehensive income (with no sub-total for profit or loss) allows users to see and evaluate all components of a different character separately, without "hiding" them, for example it:

[7] IASB Discussion Paper: *Preliminary Views on Financial Statement Presentation, 2008*, paragraph 3.35

(i) prevents entities from excluding certain income and expense from profit or loss, thereby avoiding presentation of a more (or less) favourable report of financial performance than is justified; and

(ii) prevents entities from excluding economic volatility from profit or loss and therefore reporting profit or loss that reflects less risk than exists in reality.

(b) Because of the focus on profit or loss, some users do not fully appreciate or understand the information about financial performance that is presented in OCI.

(c) Presenting items in OCI raises the issue of recycling (reclassifying) of these items into profit or loss in later periods. Recycling adds complexity to financial reporting. It also results in items that, arguably, do not meet the definition of income or expense (ie the recycling adjustments) being presented in the statement(s) of profit or loss and other comprehensive income.

14. Having considered these arguments the IASB's preliminary view is that profit or loss as a total or sub-total should be retained and that the concept of profit or loss should be specifically addressed in the Conceptual Framework. The IASB is persuaded by:

(a) Current practice: users from all sectors incorporate profit or loss in their analyses, either as a starting point for analysis or as the main indicator of an entity's performance; and

(b) Greater transparency: distinguishing items of income and expense between profit or loss and OCI results in a more useful presentation of financial performance. Such presentation enables an entity to better present information about different, or in some cases more relevant, aspects of financial position and financial performance.

15. Not all IASB members agree with the IASB's preliminary view. Paragraphs 87-92 explore in more detail an alternative view held by some IASB members. In their view there should be a single statement of comprehensive income that does not include a sub-total for profit or loss.

16. This discussion paper does not explore whether the statement(s) of profit or loss and other comprehensive should be presented as one or two statements, because the IASB views this as an issue that should be resolved when the IASB develops new or revised IFRSs. Any decision to amend particular standards would require the IASB to go through its normal process for adding a project to its agenda, and for developing an exposure draft or an amendment to that IFRS. The IASB has no current plans to do so on this issue.

Defining a concept of profit or loss for the Conceptual Framework

17. There are many views about what constitutes profit or loss. Many equate profit or loss with financial performance, or with a specific attribute such as "operating income" or "realised gains". These views are explored in more detail below.

Financial performance

18. The Conceptual Framework provides some insight into what financial performance includes, although it does not define it. The Conceptual Framework states that financial performance includes transactions and other changes in the recognised resources of an entity other than by obtaining additional resources directly from, or distributing resources to, investors and creditors. All items of income and expense result from an entity's performance and profit is frequently used as a financial measure of that performance.[8]

19. Although all items of income and expense result from an entity's financial performance, profit is more frequently used as a performance measure than total comprehensive income.

20. Profit is by no means the only measure of financial performance. There are a number of commonly used performance measures involving the use of income and expense that can be looked at in isolation or in aggregate. These include:

    (a) Line items such as revenue from operations, operating income or cash flow from operations;

[8] See OB15, OB18 and Paragraph 4.24 of the *Conceptual Framework*

(b) Gross margins;

(c) Gross profits; and

(d) Earnings (profit) before interest, taxes, depreciation, and amortisation (EBITDA).

21. In addition, information about financial performance can be assessed using many aspects of an entity's financial statements, not just the statement(s) of profit and loss and other comprehensive income and related notes. For example, some argue that the statement of cash flows provides useful information about performance, as do disclosures of operating segments and risk disclosures. Also, a comparative balance sheet which shows changes in financial leverage provides information about performance that is not shown in the statement(s) of profit and loss and other comprehensive income.

22. The above discussion illustrates that equating financial performance with one number or measure is too simplistic and would not meet the needs and preferences of a wide range of users. As a result, this discussion paper does not equate financial performance with either "comprehensive income" or "profit or loss" or any other total, sub-total or other commonly used performance measure. Instead, this paper explores how all recognised items of income and expense can be presented, using totals and sub-totals, to provide information about financial performance that is useful in assessing the entity's past and future ability to generate net cash inflows.

A single attribute to define profit or loss

23. Given the broad range of items included in profit or loss, this [draft] discussion paper has sought to distinguish between profit or loss and OCI items by defining or describing the types of items that could be presented in OCI (rather than what should be presented in profit or loss). This approach means that profit or loss is treated as the default category.

24. There are a number of attributes that are often used to distinguish what might be presented in profit or loss from what might be presented in OCI. Although each provides some insight into possible distinctions, no one attribute is definitive and can be used in isolation. Some of the commonly cited "distinguishing attributes"

are described in Table 1 below, along with the arguments for and against the use of each attribute in isolation.

Table 1: Common suggestions for an attribute to distinguish between profit or loss and OCI. Arguments for and against relate to why a single attribute can or cannot be used in isolation.

Distinguishing OCI attribute	Arguments for use in isolation	Arguments against use in isolation
Unrealised Unrealised items of income or expense (ie remeasurements) are presented in OCI Recycled into profit or loss on realisation	Most remeasurements result from changes in price or estimates which can be transitory. Realised income or expense is more certain and therefore more useful in predicting future cash flows.	Importance of realisation as an indicator of performance will depend on how the underlying asset is expected to contribute to future cash flows. Realisation may not provide useful information about financial performance eg sale of a liquid financial instrument, receipt of a cash flow from a derivative contract. The timing of realisation is susceptible to earnings management.
Non-recurring Non-recurring items of income or expense are presented in OCI No basis for recycling	Recurring items of income or expense are more persistent and therefore more useful in predicting future cash flows	Difficult (and perhaps arbitrary) to determine when an item is non-recurring. Different users have different views about what is recurring What is recurring/non-recurring varies across industries and even within industries.
Non-operating Non-operating items of income or expense are presented in OCI No basis for recycling	Operating items reflect the entity's business model, so directly related to management's view of the entity's financial performance. Like recurring profit, operating profit is likely to exclude unusual or non-recurring items and therefore more useful in predicting future cash flows.	The determination of what is non-core will be based on management judgement and could therefore decrease comparability across entities. What is core or non-core would be difficult to define in a general standard, due to the range of operating environments across reporting entities.
Measurement uncertainty Items of income and expense with insufficient measurement certainty are presented in OCI Possibly recycle when the measurement becomes sufficiently certain	Items of income or expense that result from an asset or liability with greater measurement certainty are more likely to reflect actual future cash flows.	Difficult (and perhaps arbitrary) to determine the point when a measurement is so uncertain that should be presented in OCI. Income or expenses arising from uncertain measurements may economically offset items arising from measurements that are certain.
Long-term Items of income or expense that will be realised in the long-term are presented in OCI Possibly recycle when the asset or liability becomes short-term	Items of income or expense not likely to be realised in the short-term are less likely to be relevant to the current period eg some changes in discount rate. Measurements of a short-term nature are more certain and therefore more likely to reflect actual cash flows.	Difficult (and perhaps arbitrary) to determine the point in a time horizon which is short-term. What is long-term will vary across asset and liability classes, industries and businesses eg many types of life-insurance contracts.
Outside management control Items of income or expense that arise as a result of events outside of management's control are presented in OCI No basis for recycling	Items of income or expense that are outside of management's control are not a good indicator of the entity's and its management's performance. Reflects business model and management performance.	Difficult (and perhaps arbitrary) to determine what is under management's control. For example would a fair value gain on a debt instrument resulting from changes in market interest rates be under management's control if it was held for trading?

25. As discussed in the previous paragraph and described in Table 1 above, the IASB believe that no single attribute can operationally and meaningfully distinguish between those items that should be presented in profit or loss and those that should be presented in OCI. In addition, many of the attributes are interrelated eg operating activities are more likely to exclude non-recurring items. This is hardly surprising given the range and complexity of activities that financial performance aims to represent and the range of needs and preferences of users who assess that performance.

Alternative approaches to presentation in the statement(s) of profit or loss and other comprehensive income

26. This discussion paper describes three approaches to the presentation of profit or loss in the statement(s) of profit or loss and other comprehensive income. These can be split between those that retain the concept of profit or loss and those that do not and are described as follows:

Approaches that retain the concept of profit or loss:

(a) *Approach 1:* Described in paragraphs 27-76, this approach proposes three principles on which the concepts or bridging items and mismatched remeasurements are based. These concepts describe the types of items that are eligible for presentation in OCI. The IASB tentatively supports this approach.

(b) *Approach 2:* Described in paragraphs 77-86, this approach proposes one principle and four indicators which the IASB could use in determining what items are eligible to be presented in OCI.

Approach that does not retain the concept of profit or loss

(c) *Approach 3:* Described in paragraphs 87 to 92 of this discussion paper and as previously mentioned in paragraph 15, this approach proposes that there should be a single statement of comprehensive income that does not include a sub-total for profit or loss.

Approach 1

27. Based on the IASB's tentative view that the Conceptual Framework should describe the concept of profit or loss, this approach seeks to address two questions:

    (a) What distinguishes recognised items of income and expense[9] that are presented in profit or loss from other recognised items of income and expense ie those presented in OCI?

    (b) What items (if any) presented in OCI in one period should be reclassified (recycled) into profit or loss in the same period or a later period and why?

28. This discussion paper proposes that the IASB should apply the following principles to determine which items of income and expense are eligible to be presented in profit or loss or OCI:

    (a) *Principle 1:* Items of income and expense presented in profit or loss communicate the primary picture of an entity's financial performance for the reporting period.

    (b) *Principle 2:* All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information.

    (c) *Principle 3:* An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss when the reclassification results in relevant information about financial performance in that period.

Items in profit or loss present the primary picture of financial performance

29. As previously indicated (see paragraph 11), the IASB understands and has previously acknowledged that users from all sectors incorporate profit or loss in

[9] In this paper, a reference to a recognised item of income or expense also includes a reference to a component of those items. It also refers to reclassification (recycling) adjustments where relevant.

their analyses, either as a starting point for analysis or as the main indicator of an entity's performance.

30. It is also understood that presenting items separately in profit or loss and OCI clearly identifies different aspects of financial performance during a period. Typically the distinction can communicate about how more or less relevant the item is to financial performance in a period.

31. In the proposed principle that items of income and expense in profit or loss present the primary picture of financial performance, the term *primary* refers to the pool of information that most prominently highlights:

    (a) A particular aspect or aspects of an entity's financial performance; or

    (b) A higher degree of relevance to an entity's financial performance, either in general, or in regards to its relationship with the reporting period.

32. Primary implies that there is a secondary and that items presented outside profit or loss may still provide relevant information about financial performance.

All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides more relevant information

33. As profit or loss provides the primary picture of financial performance, all items of income or expense should be included in profit or loss. Presentation of an item in OCI would only be appropriate when such presentation provides more useful information about financial performance in the reporting period.

34. The current limitation of allowing the use of OCI only when permitted or required by IFRS seems appropriate and consistent with the idea that OCI is an exception to presentation in profit or loss. It follows that allowing entities to use OCI by analogy would not be appropriate.

When may the IASB decide to use OCI?

35. Few have argued that income and expense arising from cost based measurements should be recognised in OCI as these items always appear to provide useful information about financial performance in the period in which they are recognised. In addition, few have argued that the results of initial recognition

events and transactions do not reflect an important aspect of financial performance in the period in which they occur.

36. However, some items of income or expense resulting from changes in the carrying amount of assets and liabilities measured using a current measurement basis (ie measurements based on fair value and other current market prices; and other measurements based on estimated cash flows) may not provide the most useful information about an entity's financial performance in a reporting period. This may be because the change is:

    (a) the product of a number of factors, events or circumstances and not all are of equal relevance to performance in the period. For example the fair value of a debt instrument may include value changes resulting from the passage of time, counterparty credit risk, liquidity risk and market risk; or

    (b) not indicative of the expected method of realisation of that asset or liability, as indicated by current activities (ie business model).

37. As a result, one component of the change in the current measure may be more relevant to the financial performance of an entity during a period than other components of that change. Alternatively, the full amount of the change in the current measure may be more relevant to the financial performance in a future period than to the financial performance of the current period. However, the IASB would not be required to use OCI for all remeasurements.

38. There may also be different views as to what constitutes a remeasurement. As this [draft] discussion paper proposes that presentation of items in OCI would not apply where an asset or liability is measured on a cost basis, it is proposed that adjustments to that cost would not be eligible for presentation in OCI. Such adjustments would include:

    (a) Depreciation or amortisation;

    (b) Accrual of interest, accretion of discount, or amortisation of premium; or

    (c) Impairment of assets or increases to the carrying amount of liabilities that have become onerous.

Recycle OCI items when it results in relevant information

39. There are three alternative views on whether and how the concept of recycling should be applied:

    (a) *No recycling:* Some are of the view that all items of income and expense should be presented in the statement(s) of profit or loss and other comprehensive income only once. They cite the following arguments:

        (i) The transaction or event that gives rise to recycling often gives little additional relevant information about financial performance during that period.

        (ii) Recycling adds complexity to financial reporting.

        (iii) Reclassification adjustments do not meet the definition of income or expense.

    (b) *All OCI items are recycled*: Some are of the view that all items of income or expense should be presented in profit or loss at some point. They cite the following arguments:

        (i) Recycling protects the integrity of profit or loss as the primary group of items representing financial performance.

        (ii) Recycling ensures that the ultimate effect of all similar assets and similar liabilities impacts profit or loss at some point. This is particularly important when presentation in OCI is permitted rather than required by IFRSs.

        (iii) Recycling provides relevant information about a transaction or event that occurred in the period when the item is recycled.

    (c) *Recycle OCI items only if sufficiently relevant:* Others are of the view that items of income or expense presented in OCI should be recycled into profit or loss in a subsequent period only if the recycling provides additional information that is sufficiently relevant. In their view recycling provides relevant information for some, but not all, items presented in OCI. For those with this view, the recycling of some items of income or expense, such as the remeasurement of a defined benefit pension asset or liability, will not provide sufficiently relevant information about financial performance in a period to warrant recycling. .

40. Current IFRSs reflect a combination of these views.

41. Given the primacy Principle 1 gives to items presented in profit or loss, the approach in this [draft] discussion paper is to give greater weight to the advantages of recycling (see sub-paragraph 39(b)) above) than to its disadvantages (see sub-paragraphs 39(a)) and 39(c) above). It follows that items presented outside profit or loss should be presented in profit or loss of a subsequent period when this provides relevant information about a transaction or event that occurred in that period. Consequently, an item that has previously been presented in OCI should be reclassified (recycled) to profit or loss at that point. In many cases this will be on derecognition or impairment, although in some cases recycling may need to occur at another time to provide relevant information about other events, such as the recognition of a hedged item.

Applying the principles

42. Applying the three principles identified in paragraph 28 the IASB believes that only two groups of items would be eligible for presentation in OCI. These are described below as bridging items (see paragraphs 43-57) and mismatched remeasurements (see paragraphs 58-62).

Bridging items

What are "bridging items"?

43. A bridging item arises where the IASB determines that the statement(s) of profit and loss and other comprehensive income would communicate more relevant information about financial performance if profit or loss reflected a different measurement basis from that reflected in the statement of financial position.

44. For example, in its 2012 exposure draft *Classification and Measurement: Limited Amendments to IFRS 9* (the IFRS 9 2012 ED) the IASB proposes that, in specified circumstances, debt instruments should be measured at fair value on the statement of financial position but measured at amortised cost to determine the amounts

presented in profit or loss.[10] In the IASB's view, this presentation best reflects the entity's performance, based on the business model within which the debt instrument is held.

45. In order to base profit or loss on a measure different from the measure presented in the statement of financial position, the change in the difference between those two measures would be presented as a bridging item in OCI. The cumulative amount recognised in OCI is the difference between the two measures. In other words it provides a bridge between them.

When are two different measurement bases appropriate?

46. In determining whether the primary financial statements should use two measurement bases for a single asset or liability (resulting in presentation of items in OCI), the IASB would need to consider whether such presentation provides more useful information than either:

    (a) presenting the entire amount of income or expense as one or more line items within profit or loss; or

    (b) presenting the results of one measurement basis in the primary financial statements with disclosure of the other measurement basis in the notes to the financial statements.

47. In most cases the measurement basis presented in the statement of financial position would be the same as that used as a basis for profit or loss.

48. For the IASB to consider the use of two different measurement bases in the primary financial statements for a recognised asset or liability, both measurement bases would need to provide sufficiently relevant information about different facets of the entity's financial position and financial performance.

49. The measurement basis selected for presentation in profit or loss must be meaningful. That is, the cumulative amounts presented in profit or loss should reflect an amount that faithfully represents the asset or liability had it been measured and presented on that basis in the statement of financial position. Given the primacy of items presented in profit or loss, it is important that all amounts

[10] Paragraphs 4.1.2A, 5.7.1A. See also BC17-BC30

presented within that total or sub-total are subject to the same level of discipline. Section 6 of this [draft] discussion paper on measurement discusses how to determine a relevant measurement basis.

50. In addition, the IASB would need to consider whether the cost and complexity of requiring or permitting the use of two measurement bases outweighs the benefits of the additional information.

51. This [draft] discussion paper suggests that the IASB should consider presentation of two different measurement bases in the primary financial statements only if the measure in the statement of financial position is not based on cost. This is because a decision to measure an asset or liability on a cost basis reflects a conclusion that information about the current value of those assets and liabilities is not as relevant as cost based information. Consequently, presenting two measurement bases is unlikely to provide useful information..

52. In selecting a measurement basis, the IASB is primarily interested in how the asset or liability will contribute to future net cash inflows. In some cases, depending on its nature or the entity's operations, a single asset or single liability is expected to contribute to an entity's future net cash inflows in more than one way. Similarly for complex operations, similar or even fungible assets and liabilities are expected to contribute to future net cash inflows in different ways within a single entity. In some circumstances the IASB might determine that an asset or liability is expected to contribute to future net cash inflows in different ways and that the best way to represent this is by using one measurement basis in the statement of financial position and another measurement basis in the statement(s) of profit or loss and other comprehensive income.

53. One circumstance might be where an entity's business model reflects two types of activities. This may be the case where an entity manages different aspects of an item to two different time horizons. Transactions and adjustments to cost-based measurements such as consumption and impairment might be managed day to day. On the other hand value changes might be managed to a longer time horizon, not necessarily reacting immediately or always to value changes. An entity's management may be prepared to take actions (eg sale, early settlement) over the medium to longer term, especially if price changes look as though they will persist. Presenting a current measure in the balance sheet, and disaggregating the

item of income and expense between profit or loss and OCI, enables an entity to communicate relevant information about its performance in each activity.

54. For example, for debt instruments classified at fair value through other comprehensive income in accordance with the IFRS 9 2012 ED, the fair value reflects a value that may be realised if the debt instruments were sold. Amortised cost faithfully represents what will occur if the entity holds the debt instruments to collect contractual cash flows. Reporting both measurement bases reflects a business model that manages the debt instruments both in order to collect contractual cash flows and for sale.

55. A second circumstance where the IASB may consider using two measurement bases for a single asset or liability is where the long-term nature of an asset or liability means that small changes in valuation inputs can have a significant effect on current period income, but these effects may reverse over time. If these changes reverse they may not contribute to future cash flows and therefore not provide useful information for assessing those cash flows.

56. For example, in its recent deliberations on insurance contracts, the IASB decided to propose that gains and losses arising from changes in discount rate should be segregated from other gains and losses in OCI. Because changes in discount rate do not affect the ultimate amount paid to policyholders, presenting them in OCI provides clearer information about the underwriting performance of the entity in profit or loss. The amount presented in profit or loss equals the change in the current value of the insurance contract using the discount rate determined at the inception of the contract. The cumulative amount reported through OCI provides information about the insurer's exposure to interest rate risk – risk that may affect future cash flows if the duration of the insurer's liabilities does not match the duration of its assets and if, as a result, the insurer is forced to reinvest at lower rates than it pays on its liabilities.

Recycling bridging items

57. Presenting items in OCI enables profit or loss to reflect the income and expense determined using a different measurement basis for the assets or liabilities being measured eg amortised cost. In line with Principle 3, the amounts in OCI should be recycled into profit or loss in a manner (timing and amount) that is consistent

with the measurement basis used to determine the income and expense presented in profit or loss. For example if a debt instrument is measured at fair value in the statement of financial position, but presented in profit or loss on an amortised cost basis, then amounts previously reported in OCI need to be recycled into profit or loss on an impairment, disposal or reclassification of the instrument.

Mismatched remeasurements

What are mismatched remeasurements?

58. A mismatched remeasurement arises where an item of income or expense represents an economic phenomenon so incompletely that, in the opinion of the IASB, presenting that item of income or expense in profit or loss would provide information that has little or no relevance for assessing the entity's financial performance. A mismatched remeasurement may arise when assets or liabilities are remeasured, but linked assets or liabilities:

    (a) are not recognised; or

    (b) will be recognised in a future reporting period.

59. For example, IFRS requires that all derivatives are measured at fair value in the statement of financial position. Where cash flow hedge accounting is used for a derivative used to hedge a forecast transaction, the changes in the fair value of the derivative may arise in a reporting period before the income or expense resulting from the hedged item. It can be argued that, until the impact of the derivative and the hedged item can be presented together, any gains or losses resulting from the remeasurement of the derivative may not provide the most relevant information about the entity's performance in the period. Therefore, to the extent that the hedge is effective and qualifies for hedge accounting, reporting in OCI the fair value gains or losses on the derivative enables a reporting entity to exclude from profit or loss less relevant information.

60. Another example of a mismatched remeasurement is exchange gains or losses resulting when an entity translates an investment in a foreign operation into its presentation currency. This is because the amount presented in OCI reflects the remeasurement of only the recognised assets and liabilities of the foreign operation at period-end exchange rates. It does not reflect the change in value of

the foreign operation's unrecognised assets and liabilities. As a result the recognised exchange gains or losses provide such an incomplete view of how changes in exchange rates affect the value of the foreign operation that they provide little relevant information about the performance of the reporting entity in that period.

Recycling mismatched remeasurements

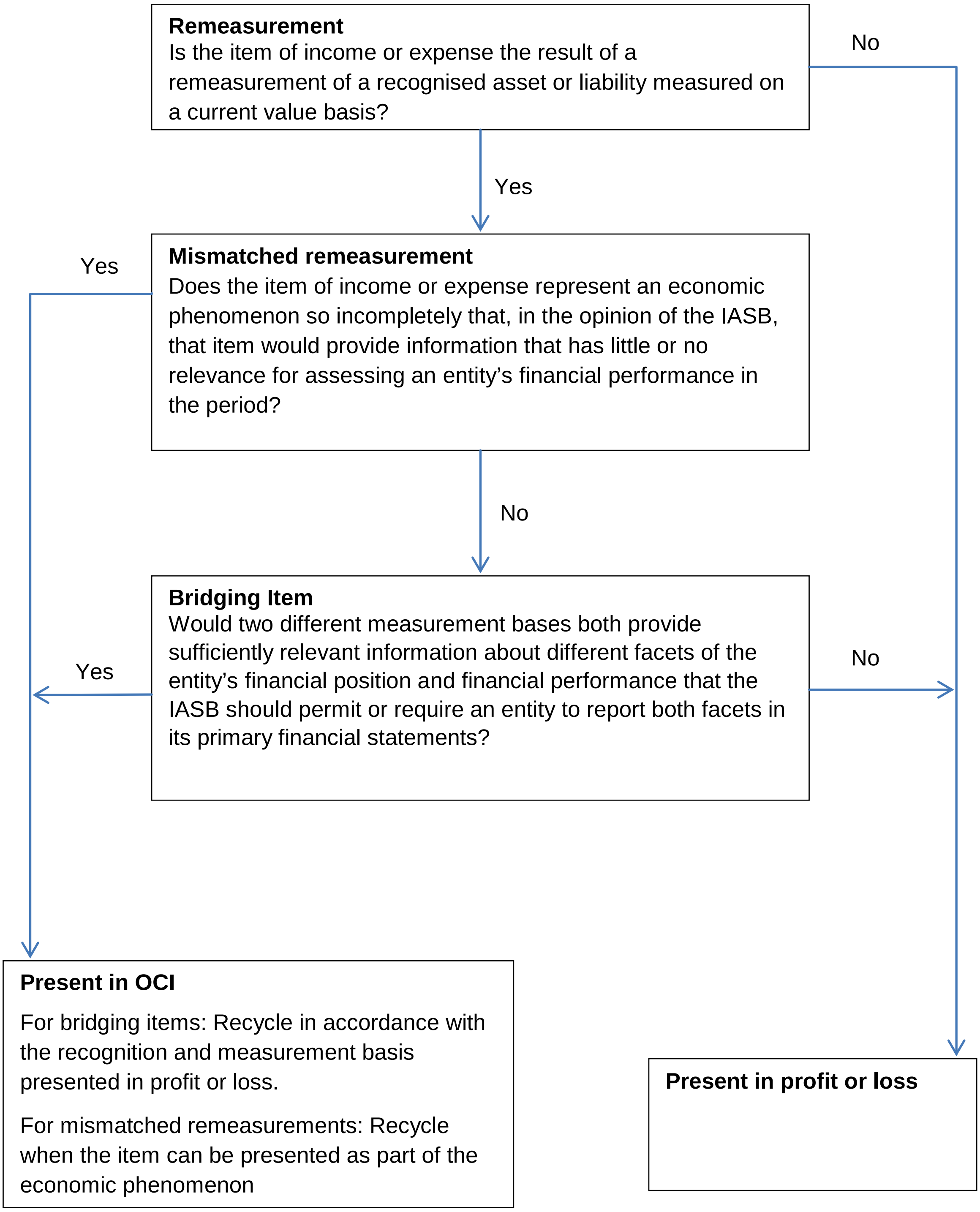
61. Amounts in OCI related to mismatched remeasurements would be recycled into profit or loss when they can be presented with those transactions with which they are linked. This means that amounts previously recognised in OCI would be recycled into profit or loss at the time when they can be presented together with the related transactions.

62. For example, in an effective cash flow hedge of a forecast sale of inventories that will be produced, and sold, in the future, the cumulative gain or loss on the hedging instrument previously presented in OCI would be recycled to profit or loss when the entity recognises the revenue arising from sale of the inventories. Likewise, the cumulative amount of exchange gains or loss arising from the translation of a foreign operation would be recycled into profit or loss on disposal of the operation. The recycled amount would appear in profit or loss together with the profit or loss on disposal of the operation, which would incorporate an amount for the appreciation (or depreciation) in value of the foreign operation's unrecognised and non-monetary assets and liabilities.

Illustrating the concepts

63. The following flowchart describes how the concepts of bridging items and mismatched remeasurements could be applied.

Flowchart 1: Applying the distinguishing principles and concepts of bridging items and mismatched remeasurements



Applying the concepts to current (and proposed) OCI items

64. Table 2 below sets out how the concepts of "bridging items" and "mismatched remeasurements" would apply to current and proposed treatments of OCI items.[11] Four items currently presented in OCI (or proposed to be presented in OCI) would not easily fit into either the bridging or mismatched remeasurement concepts without modification.

65. Table 2 does not include the treatment of equity method investments in accordance with IAS 28 *Investments in Associates and Joint Ventures.* Although these are OCI items, they have not been included in the table because they represent an investor's share of an investee's components of OCI. The analysis applicable to these types of investments would depend on the types of items (listed in the table) the investee presents in OCI.

[11] The analysis for financial instruments is based on IFRS 9 *Financial Instruments* and the IFRS 9 2012 ED. It does not deal with IAS 39.

Table 2: Applying the concepts of "bridging items" and "mismatched remeasurements" to current and proposed OCI items

IFRS or proposed IFRS	Recognised asset or liability	OCI item	Bridging Item	Mismatched Re-measurement	Inconsistencies of current IFRS treatment with bridging items or mismatched remeasurements
IFRS 9 – 2012 ED	Financial assets measured at fair value through OCI	Change in fair value	✓	×	
Insurance contracts project	Insurance contracts	Changes in the discount rate	✓	×	
IAS 16 IAS 38 IFRS 6	Property, plant & equipment, intangibles, exploration & evaluation assets	Revaluation gain or reversals	?	×	Could be a bridging item. Revalued amount represents the amount the entity may receive on disposal of the asset and depreciated cost represents use or consumption. Potential amendments needed (i) depreciation/amortisation would need to be based on the original rate; (ii) recycling on derecognition and impairment. See discussion below.
IAS 19	Pensions - net defined benefit assets or liabilities	Remeasurement	?	×	See discussion below
IAS 21	Net investment in foreign operations (and hedges)	Exchange differences	×	✓	
IAS 39	Cash flow hedging instruments	Effective portion of change in fair value	×	✓	
IFRS 9	Financial liabilities designated at fair value through profit or loss	Change in fair value attributable to issuer's own credit risk	×	?	Could be a mismatched remeasurement. Changes in fair value due to own credit risk are linked to changes in the reporting entity's goodwill. As an entity's credit risk increases, the value of its goodwill decreases. Because internally generated goodwill is not recognised, changes in the value of goodwill are not recognised at the same time as related effects on own credit. Potential amendment needed: amounts previously presented in OCI would be recycled if the liability is transferred prior to maturity.
IFRS 9	Designated investments in equity instruments	Change in fair value	×	×	Unlikely to meet either the bridging or mismatched remeasurement concept unless an operational impairment model can be developed. In addition, fair value is generally regarded as the most relevant measure of performance for equity instruments, except, arguably, for some strategic investments.

Dealing with Pensions

66. Net defined benefit assets or liabilities are generally long-term in nature which means that small changes in volatile market-based inputs (such as interest rates) can have a significant effect on remeasurements recognised in the current period. It can be argued that since these effects could reverse or significantly change over the long holding period, information about financial performance would be better communicated if these remeasurements were presented in OCI.

67. However, applying the above approach, it is not immediately clear that a remeasurement of a net defined benefit pension asset or liability would be presented in OCI. This is because the remeasurement:

    (a) is not an mismatched remeasurement as it provides a complete depiction of an entity’s obligation or claim on a pension plan; and

    (b) cannot be easily classified as a bridging item because it is difficult to determine a suitable basis for recycling. This is because:

        (i) Most pension funds are managed at a portfolio level, and tracking individual obligations at an employee level would not be operational. It is argued by some that if the pension fund was accounted for at the employee level, recycling could occur at the termination of each individual contract; and

        (ii) IAS 19 treats defined benefit plans as a net obligation reflecting changes in the value of the pension obligation offset by changes in value of the plan assets. Even if it was possible to determine the pension obligation at the employee level, it may be necessary to account separately for the plan assets in order to determine a suitable basis for recycling the cumulative gains or losses related to the remeasurement of those fund assets.

68. Some are of the view that the operational aspects of recycling could be addressed by treating the defined benefit plan as the unit of account rather than a series of obligations to each plan participant. Recycling would occur when the scheme itself is disposed of or closed. They believe that there is guidance in IAS 19 that supports this view. However opponents of this view believe IAS 19 treats defined

benefit plans as a “closed book” ie an asset or obligation with a finite life rather than an “open book” where new plan members continually replace those who leave. Those with this view argue that the remeasurement of net defined benefit pension assets or liabilities could potentially meet the criteria as a bridging item.

69. Others are of the view that even if a suitable basis for recycling could be determined, remeasurements of net defined benefit assets or liabilities would still not meet the criteria for a bridging item. This is because both the service cost and the net interest on the net defined benefit liability (asset) are determined using discount rates that are reset at the start of each period. Thus, the cumulative amounts reported in profit or loss do not correspond to a meaningful, understandable and clearly describable measure of the liability or asset.

70. Based on the above views, the different ways of dealing with the remeasurement of net defined benefit assets and liabilities include the following:

    (a) Address the operational and discount rate issues discussed in paragraphs 67-68 above so that the remeasurements of net defined benefit assets or liabilities could be treated as bridging items. Any decision to amend IAS 19 would require the IASB to go through its normal process for adding a project to its agenda, and for developing an exposure draft or an amendment to that IFRS. The IASB has no current plans to do so.

    (b) Accept that remeasurements of a net defined benefit pension asset or liability do not fit the concept of a bridging item or mismatched remeasurement, but require use of OCI in any case. Such an exception would be based on operational and cost benefit considerations; or

    (c) Present the remeasurement of the net defined benefit pension asset or liability as a separate line item within profit or loss.

Fixed asset revaluations - capital maintenance

71. Some are of the view that IAS 16 *Property, Plant and Equipment* fixed asset revaluations were originally intended to be physical capital maintenance adjustments resulting from a current cost measurement basis. See section [AP 10J(a)] for a discussion of the concept of physical capital maintenance and how it

relates to fixed asset revaluations. Under this view, revaluation gains and losses would not be presented in the statement(s) of profit and loss and other comprehensive income but would be presented directly in equity and the question of whether they should be presented in OCI would not arise.

Impact on items currently reported in profit or loss

72. Other remeasurements in existing IFRSs could potentially qualify as a bridging item (see Table 3 below). The fact that these items could potentially qualify as bridging items does not necessarily mean that the IASB would choose to treat these items as bridging items (it would be a standards level decision).

73. The IASB has not identified any mismatched remeasurements not currently presented in OCI.

Table 3: Applying the concepts of “bridging items” and “mismatched remeasurements” to items currently presented in profit or loss

IFRS or proposed IFRS	Recognised asset or liability	Current Profit or loss item	Characteristics that may make item qualify as a bridging item
IAS 37	Long-term provisions (includes decommissioning, restoration and similar liabilities)	Remeasurement	Provisions can be long-term in nature, which means that small changes in market-based inputs (such as discount rates) can have a significant effect on remeasurements recognised in the current period. However, it might be inconsistent to treat losses recognised on initial recognition differently from subsequent remeasurements.
IAS 40	Investment property	Remeasurement	Business model may be both: (1) to collect contractual cash flows on the property or otherwise consume (ie rental income, depreciation); (2) to sell the property.
IAS 41	Biological asset before point of harvest	Change in fair value less costs to sell	Biological assets can be long-term in nature which means that small changes in market-based inputs can have a significant effect on remeasurements recognised in the current period.[12]

Impact of limiting OCI to bridging items and mismatched remeasurements

74. This [draft] discussion paper proposes that by applying the three principles, presentation in OCI is limited to bridging items and mismatched remeasurements.

[12] The proposed limited-scope improvement to IAS 41 may treat some bearer biological assets in the same way as property, plant and equipment. This would make the IAS 16 revaluation model available for these assets.

75. As discussed above, this could mean that some items currently in OCI would not meet these criteria. Conversely some items currently not presented in OCI would meet the proposed criteria. This is not surprising given that the current approach in IFRS to what should be presented in OCI has developed without a framework for making consistent decisions.

76. Any decision to amend the existing use of OCI and profit or loss in particular standards would require the IASB to go through its normal process for adding a project to its agenda, and for developing an exposure draft or an amendment to that IFRS. The IASB has no current plans to do so.

Approach 2

77. An alternative approach to describe which items of income and expense would be eligible to be presented in OCI uses only Principle 2 as the basis for a single, broader concept.

78. For the same reasons as discussed in paragraphs 35-38, this approach would be limited to remeasurements of assets and liabilities measured on a current value basis.

79. Under this approach all items of income and expense would be recognised in profit or loss unless presenting an item in OCI provides more relevant information.

80. This approach would not view items of income and expense presented in profit or loss as having primacy over other items of income and expense. Thus, there would be no expectation that all OCI items should recycle. Therefore an item that has previously been presented in OCI is reclassified (recycled) to profit or loss (but only if) the reclassification results in sufficient additional relevant information in that period.

81. In addition, without the primacy given to profit or loss, disaggregated components of income and expense presented in profit or loss would not necessarily need to reflect a meaningful measurement basis ie the cumulative amount of the amounts presented in profit or loss do not need to reflect a coherent measurement basis for the asset or liability.

82. This alternative approach would propose that, in determining whether a remeasurement (or a component thereof) is eligible for presentation in OCI, the IASB would consider the following indicators:

    (a) Small, shorter time horizon changes in valuation inputs can have a significant impact on current period income or expense;

    (b) Because of the entity's business model, the effects of these changes in the current period are not relevant to its performance in that period; or

    (c) The effects of the remeasurement may fully reverse or significantly change over the long holding period.

83. Not all indicators would need to be present for the IASB to determine that an item is eligible for presentation in OCI.

84. Table 4 below sets out how the concept of long-term remeasurements would apply to current and proposed treatments of OCI items.[13]

[13] The analysis for financial instruments is based on IFRS 9 *Financial Instruments* and the IFRS 9 2012 ED. It does not deal with IAS 39. OCI items arising from equity method investments follow the analysis of the individual items presented.

Table 4: Applying the concept of "long-term remeasurements" to current and proposed OCI items

IFRS or proposed IFRS	Recognised asset or liability	OCI item	OCI Item using the Approach 2
IFRS 9 – 2012 ED	Financial assets measured at fair value through OCI	Change in fair value	✓
Insurance contracts project	Insurance contracts	Changes in the discount rate	✓
IAS 16 IAS 38 IFRS 6	Property plant & equipment, intangibles, exploration & evaluation assets	Revaluation gain or reversals	✓
IAS 19	Pensions - net defined benefit assets or liabilities	Remeasurement	✓
IAS 21	Net investment in foreign operations (and hedges)	Exchange differences	✓
IAS 39	Cash flow hedging instruments	Effective portion of change in fair value	✓
IFRS 9	Financial liabilities designated at fair value through profit or loss	Change in fair value due to issuer's own credit risk	✓
IFRS 9	Designated investments in equity instruments	Change in fair value	✓

85. Applying this approach to items currently in profit or loss, it would seem that some IAS 37 provisions, investment properties and biological assets may be eligible for OCI treatment.

86. The advantage of this approach is that many of the items currently presented in OCI could retain their current treatment. The disadvantage of this approach is that it may be viewed as too broad and could result in inconsistent treatment at a standards level. This may mean that some of the perceived problems with the current use of profit or loss and OCI (see paragraph 3) would not be addressed.

Approach 3: A single statement of comprehensive income

87. As was indicated earlier in the paper, some are of the view that there should be a single statement of comprehensive income. They view the distinction between profit or loss and OCI as artificial. They consider that identifying a single number within comprehensive income as the primary indicator of financial performance over simplifies the performance of an entity. They believe that presenting line

items of income and expense without the priority or prominence imposed by the profit or loss sub-total is the most effective way of communicating information about financial performance that is helpful to users assessing the prospects for future net cash inflows to an entity.

88. For a discussion of the advantages and disadvantages of a single statement approach versus a sub-total or statement for profit or loss see paragraphs 12-13 of this section of the [draft] discussion paper.

89. If the statement of comprehensive income were to present all recognised items of income and expense within the same total, reclassifications (recycling) and their associated complexity would be unnecessary.

90. If the Conceptual Framework adopted this approach, it is envisaged that presentation of line items, totals and sub-totals would primarily be dealt with at a standards-level. This approach would not preclude the IASB requiring at a standards level the presentation of totals and sub-totals that they believe would result in information about financial performance being presented in a meaningful way.

91. However a key question that arises under this approach is how best to present the results of cash flow hedge accounting. Possible ways the IASB might consider include:

    (a) present all gains or losses on cash flow hedge derivatives in a separate line item of the single statement of comprehensive income;

    (b) present the effective portion of all gains or losses on cash flow hedge derivatives in equity (not in OCI) and “recycle” when the hedged transactions impacts profit or loss; or

    (c) allow the effective portion of derivatives that meet cash flow hedge accounting to be measured at amortised cost (ie off-balance sheet).

92. However for the IASB to consider any amendment to cash flow hedge accounting in the way described above, it would need to go through its normal process for adding a project to its agenda, and for developing an exposure draft or an amendment to that IFRS. The IASB has no current plans to do so.

Name of the statement(s) of profit and loss and other comprehensive income

93. Many view the term "comprehensive income" as confusing or misleading. This is because financial reporting is not comprehensive. Not all assets and liabilities are recognised in the statement of financial position. As a result recognised changes in these net assets (ie income and expense) cannot be considered as comprehensive.

94. In order to increase understandability this discussion paper suggests that the name of those statements, totals and sub-totals that include the term "comprehensive income" should be changed as follows:

    (a) "Statement of comprehensive income" changed to "Statement of income and expenses";

    (b) "Total comprehensive income" changed to "Total income less total expenses";

    (c) "Other comprehensive income" changed to "Remeasurements outside profit or loss".

Question for respondents

95. Do you agree that profit or loss as a total or sub-total should be described in the Conceptual Framework? If not, do you:

    (a) support the alternative single statement approach described in paragraphs 87-91; or

    (b) think that that profit or loss as a total or sub-total should be described at a standards level?

96. Do you support the three principles for distinguishing between items in profit and loss and OCI described in paragraphs 27- 41? If not, do you:

    (a) support the alternative approach described in paragraphs 77-86; or

    (b) think the IASB should consider other approaches? If so, please specify.

97. Do you agree with how the principles described in paragraphs 27-41 have been applied using the concepts of bridging and mismatched remeasurements? If not, do you think that:

(a) the concepts of bridging and mismatched remeasurements are not needed to apply the principles; or

(b) there are alternative or additional concepts that should be derived from the principles? If so, please specify.

98. Do you agree that the term *comprehensive income* should be changed? If so, do you agree with the proposed changes described in paragraphs 93-94?