Review of the Conceptual Framework

Profit or loss and OCI

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Before we start…

• You can download the slides by clicking on the button below the slides window

• To ask a question, type into the designated text box on your screen and click submit

• A recording of the webcast will be available after the presentation at http://go.ifrs.org/Conceptual-Framework

• The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation
Project overview

Project objectives

- Not a fundamental re-think
- Focus on weaknesses that have given problems in practice
- Filling in gaps, and updating and improving existing guidance

Discussion Paper objectives

- Preliminary views
- Starting point for further discussion and consultation
- Seeking your views by 14 January 2014

Project consequences

- New *Conceptual Framework* will not override existing IFRSs
Overview of the session

• Discussion Paper (DP) approach to:
  – Profit or loss
  – Other comprehensive income (OCI)

• Approaches to OCI discussed in the DP:
  – Narrow approach
  – Broad approach

• Comparison of approaches
Statement of comprehensive income

Discussion Paper approach

• All items of income and expense provide some information about financial performance
• Make best use of subtotals or totals so information is useful
• Present as one or two statement(s)
Proposed approach to profit or loss and OCI

Retain profit or loss as a subtotal or total

- IASB’s preliminary view
  - Profit or loss communicates the primary picture of the return an entity has made on its resources
  - OCI items also provide relevant information

Alternative approach

- No subtotal (ie profit or loss or OCI) defined in the Conceptual Framework
- No recycling
- Not well supported
Distinguish using an attribute?

<table>
<thead>
<tr>
<th>Profit or loss</th>
<th>OCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Realised</td>
<td>• Unrealised</td>
</tr>
<tr>
<td>• Recurring (persistent)</td>
<td>• Non-recurring</td>
</tr>
<tr>
<td>• Operating</td>
<td>• Non-operating</td>
</tr>
<tr>
<td>• Measurement certainty</td>
<td>• Measurement uncertainty</td>
</tr>
<tr>
<td>• Short-term</td>
<td>• Long-term</td>
</tr>
<tr>
<td>• Under management control</td>
<td>• Outside management control</td>
</tr>
</tbody>
</table>

IASB did not pursue this approach
Distinguish by describing OCI items?

Discussion Paper approaches

**Narrow approach**
- Bridging items
- Changes in some current measures (remeasurements)
- Decision for IASB

**Broad approach**
- Bridging items
- Transitory remeasurements
Bridging items & mismatched remeasurements

- ‘Bridging items’: arises where same asset/liability is represented in the statement of financial position and impacts profit or loss using two different measurements (see next slide)

- ‘Mismatched remeasurements’: arises when offsetting impact of linked transactions or other events is not yet recognised, e.g., cash flow hedging and foreign exchange translation

- Both bridging items and mismatched remeasurements are always recycled
Narrow approach

- Bridging
  - IFRS 9 (2012 ED)
  - Insurance contracts
  - Others?
- Mismatched
  - Cash flow hedging
  - Foreign exchange
  - Others?

Profit or loss (default)
‘Bridging items’

Example (IFRS 9 2012 ED):
If financial assets are measured at amortised cost to determine profit or loss and measured at fair value in the statement of financial position.

<table>
<thead>
<tr>
<th>Statement of profit or loss 20XX</th>
<th>Statement of comprehensive income 20XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income A</td>
<td>Profit or loss A-B+C</td>
</tr>
<tr>
<td>Impairment (B)</td>
<td>Fair value changes D</td>
</tr>
<tr>
<td>Reclassification adjustment on disposal C</td>
<td>Reclassification adjustment on disposal (C)</td>
</tr>
<tr>
<td>Profit or loss A-B+C</td>
<td>Total comprehensive income A-B+D</td>
</tr>
</tbody>
</table>
‘Transitory remeasurements’

• Must meet all conditions:
  ✓ Asset realised/liability settled over the long term
  ✓ Current period remeasurement is expected to reverse fully, or change significantly, over the holding period of the asset or liability
  ✓ Current period remeasurement enhances the relevance of profit or loss

• Recycle if it provides relevant information
Broad approach

Profit or loss (default)

- Bridging
- Mismatched

OCI

- Transitory remeasurements
  - Pensions
  - Own credit
  - Investments in equity instruments
  - PPE, intangible assets revaluation gains/losses
  - Others?
## ‘Transitory remeasurements’ (2)

### Example – Pensions

20X1: Estimate of employee service cost is CU10 per year
20X2: Revised estimate of employee service cost is CU12 per year
- revision due to change in inflation forecast

<table>
<thead>
<tr>
<th>Impact on comprehensive income</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or loss</td>
<td>12</td>
</tr>
<tr>
<td>OCI: Pension liability remeasurement</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact on financial position</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X2 service cost</td>
<td>12</td>
</tr>
<tr>
<td>20X1 service cost</td>
<td>10</td>
</tr>
<tr>
<td>20X1 ‘catch-up’</td>
<td>2</td>
</tr>
<tr>
<td><strong>Pension liability</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

Transitory effect of inflation is separately presented

Relevant information about 20X2 service costs

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# Approaches compared

<table>
<thead>
<tr>
<th></th>
<th>Narrow approach</th>
<th>Broad approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Use</strong></td>
<td>Use of OCI is only where permitted or required by particular standards</td>
<td></td>
</tr>
<tr>
<td><strong>Eligible items</strong></td>
<td>Some (but not all) gains and losses arising from changes in a current measure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(remeasurements)</td>
<td></td>
</tr>
<tr>
<td><strong>Categories</strong></td>
<td>Mismatched remeasurements</td>
<td>Mismatched remeasurements</td>
</tr>
<tr>
<td></td>
<td>Bridging items</td>
<td>Bridging items</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transitory remeasurements</td>
</tr>
<tr>
<td><strong>Recycling</strong></td>
<td>Always</td>
<td>Sometimes – if it provides relevant information</td>
</tr>
<tr>
<td><strong>Result</strong></td>
<td>Fewer items qualify for OCI</td>
<td>More items qualify for OCI (in line with current use)</td>
</tr>
<tr>
<td></td>
<td>Less discretion for the IASB</td>
<td>More discretion for the IASB</td>
</tr>
</tbody>
</table>
More information

• Discussion Paper
  – Comments to be received by 14 January 2014

• Snapshot

• Existing *Conceptual Framework*

• *Conceptual Framework* website
  http://go.ifrs.org/Conceptual-Framework
Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.