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Re: *EFRAG draft comment letter on IASB Exposure Draft Presentation of Items of Other Comprehensive Income (ED 2010/5)*

Dear Sir/Madam,

We are pleased to have the opportunity to comment on your draft comment letter on IASB *Exposure Draft Presentation of Items of Other Comprehensive Income – Proposed amendments to IAS 1*.

We support the joint efforts of the IASB and the FASB to achieve a wider convergence between IFRSs and US GAAPs in the presentation of financial statements and to improve financial reporting.

However, as preliminary remarks, we do believe important to point out the following.

We note that in this project the IASB does not set out a conceptual basis for how it determines whether an item should be presented in OCI or in profit or loss, as said in the BfC.

Instead we think that this is an essential point to be addressed. Both this ED and the wider project on *Financial Statement Presentation* do not deal with the main shortcomings of the present definition of the statement of comprehensive income. In particular, we refer to:

- a) the lack of a general principle that sets out clearly the features that an item included in OCI should have in contrast to the items of profit or loss, in order to define an unambiguous classification criterion; and
- b) the lack of a general principle that defines the recycling rules for items of OCI that have to be reclassified subsequently to profit or loss (why, when, how and for which components of OCI); clearly this lack is the result of the previous point.

In our opinion, these shortcomings are becoming more and more a critical issue, considering the increase in the number of items included in OCI, particularly items that will not be reclassified subsequently to profit or loss, due to the recent IASB projects completed (see IFRS 9) or in progress (see ED IAS 19 *Defined Benefit Plans*).

Moreover, we would point out that at the moment the identification of the items that have to be included in OCI or can be classified in OCI and the recycling accounting as well, are totally rule-based. They are defined on a project-by-project basis, in contrast with the main objective to have principle-based standards. We note that defining these issues is relevant in those countries where the separate financial statements are prepared in accordance to IFRSs.

Therefore, we do believe that the IASB priority should be to resolve the fundamental issue of the definition of the concept of performance within the current project on *Conceptual Framework* prior to proposing the removal of the option of presenting two performance statements. We think necessary a thorough analysis of the notion of performance, taking into consideration its impact on the business model of the entity.

The IASB acknowledges that further work is needed to develop a clear principle for measuring performance and this could take a substantial amount of time to resolve. However, we note that at the moment no current IASB project is dealing with the definition of the concept of performance.

In conclusion, we think that the IASB should concentrate its efforts on defining clearly performance and the related issues before removing the option of presenting the OCI statement separately.

If nonetheless the IASB intends to remove the option of presenting two performance statements before having approached the issue of performance reporting and of OCI items features, it should plan to propose the change in the ED on *Financial Statement Presentation* and, in any case, maintain a clear distinction between profit or loss and OCI, like in the ED we are commenting on. We understand that the proposal to present a single performance statement allows convergence with the similar ED issued by FASB, but we think that it is not opportune to do it now. We also understand that the change is not in contrast with the current Framework. However, the revised IAS 1 entered into force recently (2009 financial statements) and the ED on *Financial Statement Presentation* is going to be issued by the end of 2011.

With regard to the disaggregation of items in OCI in recyclable and not recyclable sections, we agree with the proposed change.

Our detailed responses to the questions in the ED are the following.

Question 1

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 agree with the proposed title. We think that it clarifies better what the content is of the statement when the entity chooses to present a single performance statement.

Question 2

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?

In the light of the introduction above, we reaffirm that it is fundamental that the IASB define the notion of performance and the related issues, including a clear framework as to the items of OCI, prior to modifying the IAS 1 requiring a single statement of comprehensive income.

Although we recognize that the proposal regards only a question of form, not of substance, we point out the inopportuneness of introducing it now. In this regard, we note as follows:

- the revised IAS 1 has been effective in Europe for only one year, being applied for the first time to the 2009 financial statements;
- the majority of entities in Italy, as well as in Europe, have chosen to present performance in two statements, and even if the change would not give rise to additional costs it would always be a change of the current practice;
- the users we have talked to do not see the presentation of a single statement as a real improvement to financial statement presentation;
- a new IFRS will be published at the end of 2011, in place of the current IAS 1 and IAS 7. This IFRS will require different statements from the actual requirements and, if appropriate, it could remove at that time the option of separate presentation of the Statement of Comprehensive Income.

We acknowledge that there are some projects that increase or could increase the items allocated to OCI as IFRS 9, the proposed amendment to IAS 19 or the *Financial liabilities* project. However, we think that this is not sufficient reason to introduce in advance the single performance statement as the use of separate statements does not compromise the clarity and the quality of financial reporting.

We do not support the proposal for the reasons stated above.

Question 3

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?

We support the proposal that the items of OCI will be distinguished into items that will be reclassified to profit or loss (recyclable) and those that will not be reclassified to profit or loss (non-recyclable). We believe that this disaggregation will improve the clarity of information

provided without additional costs. However, as already stated, we believe that the IASB should develop a clear conceptual basis for deciding which items of OCI should or should not be subject to recycling.

Furthermore, we note that the FASB is proposing in its ED *Statement of comprehensive income* that all items in OCI be recyclable and therefore, this change would improve the comparability between the IFRS financial statements and financial statements prepared under US GAAPs, enabling ready identification of the amounts in OCI that are not reclassified.

We do not agree with EFRAG regarding finalizing the proposal as part of the Annual Improvements process, since the Annual Improvement process should deal with non-urgent but necessary amendments to IFRSs focusing on areas of inconsistency in IFRSs or where clarification of wording is required. Instead, in this case, the amendment would introduce a new requirement, although it would affect only the presentation.

Question 4

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?

We agree with the proposal. It is consistent with the current requirement in IAS 1 about the allocation of income tax on items presented in OCI and it is the direct consequence of the proposal of grouping the items in OCI into those that may be reclassified to profit or loss and those that may not.

We do not agree with the EFRAG proposal that also this amendment should be dealt with in the Annual Improvements process for the reasons given above (see answer 3).

Question 5

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?

Premised that, as stated above, the IASB should undertake soon a project about the notion of performance and the related issues, and bearing in mind the inopportuneness of requiring the single statement of performance for now (as stated above), we agree that the main benefits of the proposal would be improving clarity of items presented in OCI requiring their grouping into recyclable and non-recyclable components.

Instead, we are not convinced that a single statement will make the distinction between profit or loss and items of OCI clearer than the two statements of performance. With regard to improving comparability, generally, the removal of any option improves comparability. However, in this case, the improvement would be minimal. We agree with the assessment of costs related to the proposals.

Question 6

Do you have any other comments on the proposals?

No other comments.

Yours sincerely,

Angelo Casò
(OIC Chairman)