10 September 2010

Our ref: ICAEW Rep 89/10

Your ref: ED/2010/5

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir David

ED/2010/5 *Presentation of Items of Other Comprehensive Income: Proposed Amendments to IAS 1*

ICAEW is pleased to respond to your request for comments on the Exposure Draft *Presentation of Items of Other Comprehensive Income: Proposed Amendments to IAS 1.*

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REP 89/10

ICAEW REPRESENTATION

ED/2010/5 *PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME: PROPOSED AMENDMENTS TO IAS 1*

Memorandum of comment submitted in July 2010 by the ICAEW, in response to the IASB's Exposure Draft *Presentation of Items of Other Comprehensive Income: Proposed Amendments to IAS 1* published in May 2010.

Contents	**Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Presentation of Items of Other Comprehensive Income: Proposed Amendments to IAS 1* published by the IASB.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance, which as over 775,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure that these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We are supportive of the Board's objective of bringing greater clarity and consistency to financial statement presentation. We believe that there are some important issues that this project could address. However, we are not supportive of the current exposure draft.

Lack of support for the exposure draft

5. We question the purpose of the exposure draft in its current form. The changes proposed are largely cosmetic and are likely to have little impact in practice. The title change is optional and therefore of even less relevance. In the context of the timetable challenges currently facing the Board we question whether the proposals in their current form are worthy of occupying any further IASB resources.

Conceptual case has not been made for the purpose of the different sections of the performance statements

6. We agree with the dissenting opinion published alongside the exposure draft and believe strongly that the Board should have a project on its agenda to address the purpose of the different elements of the performance statements. We do not believe that the current exposure draft contributes to this debate. It is essential that the Board establishes a clear conceptual basis for presentation between profit or loss and OCI. Such a basis would allow it to resolve such questions as where a certain item should more properly be presented, and if presented in OCI whether recycling into profit or loss is appropriate or not when developing new or amended reporting standards. These questions are pervasive to the current development of IFRS and deserve adequate attention.

Vigilance is necessary to ensure that piecemeal change does not clutter IFRS with unnecessary minor provisions

7. The exposure draft highlights a broader point concerning how a process of incremental change risks cluttering IFRS with unnecessary additional provisions. Changes to an IFRS often involve consequential minor amendments to other standards. These minor amendments risk impairing the clarity of a standard and, as they are rarely viewed holistically, may be implemented with inadequate consideration. Over time this evolutionary process could result in a body of IFRS

that is unwieldy and burdened with unnecessary provisions. For example, the exposure draft highlights one such case in paragraph 82 where parts (aa) and (ca) have been inserted by IFRS 9. We do not see why these items should be singled out for mandated presentation on the face of the profit or loss statement in all cases, even though we accept that in the context of the debate preceding IFRS 9's issuance such information might be considered important for some financial services entities. This is just one example, and the current exposure draft could be viewed as another or as a failure to address the more important questions.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: 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?

8. We do not agree with the principle that a change in title is necessary. The fundamental issue, which should in our opinion be being addressed by this project, is that of the purpose of profit or loss and OCI. There is currently a lack of a conceptual basis to distinguish between items that should be presented in profit or loss and those that should be taken to OCI. In the absence of such a framework, cosmetic changes to the performance statements lack purpose. Given the challenging timetable the Board is working to we question the need for this project if it is not to address the fundamental conceptual issues in this area.

9. As the titles of the primary statements in IAS 1 are optional, and as in any case many companies are not using the titles currently set-out in the standard, we do not see that the change would have much impact in practice. Therefore, while we question the need to change the title we are fairly ambivalent as to its effect on financial reporting.

10. However, we do feel strongly that the option to use alternative titles to those currently contained in IAS 1 must be retained. We note that certain alternative titles are commonly used and consequently that unnecessary confusion may result from their withdrawal. Therefore our response would be quite different in a context where the title change was mandated. In this context we would be opposed to it on the grounds that widespread frustration and confusion would result from the mandated abandonment of terms such as 'Income Statement' that are widely used and understood.

Q2: 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?

11. In the absence of a clearly articulated rationale for the different sections of the performance statements we find it difficult to support the proposal. Those who do not believe that items of OCI should be presented with the same prominence as items within profit or loss argue that, without appropriate conceptual justification it is not possible to conclude that a single performance statement is desirable, nor should even modest costs be incurred to adopt it without the rationale of positive benefits. This is unfortunate as the issue is a fundamental one to financial reporting and one that ought to be properly addressed. While we recognise the strong counter-argument that the lack of conceptual underpinning ought to mean that it is important for OCI items to be presented in the same place as items within profit and loss, we are unable to support the proposal at this stage.

12. Furthermore, we would suggest that the change would have little impact in practice. OCI is already presented below profit or loss, merely removing a title and a page break would have little more than a cosmetic effect. In practice even this cosmetic effect may be muted as the length and format of the statements may result in profit or loss and OCI remaining on separate pages of the financial statements.

Q3: 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?

13. We agree. Clarity could be improved by presenting those items that are capable of being recycled separately from those that are not. We do note that the lack of conceptual clarity surrounding the purpose of the different sections of the performance statements makes it very difficult to conclude on the appropriateness of recycling for any particular item. However, this consideration need not prevent the implementation of this straight-forward and easily implemented provision. Indeed we recommend as a preferred solution that it be detached from the ED and progressed instead as an annual improvement.

Q4: 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 the proposal? Why or why not? What alternative do you propose and why?

14. We agree for the same reasons as are set out in paragraph 13 above. The tax associated with items presented in OCI should be presented on a consistent basis with the items themselves, following the existing principle set out in paragraph 61A of IAS 12.

Q5: 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?

15. We do not agree with benefits (ai – iii). We believe that in practice these are merely cosmetic changes; OCI is in any case presented directly below profit or loss so simply removing a title and a page break will have little impact on interpretation. It is difficult to see how users will derive any benefit from this minor change. We agree with (aiv) which does improve clarity.

16. We largely agree with (b) in that the costs to preparers of implementing these minor proposals would be minimal, although we do question whether they are necessary at all. However, one constituent group that will incur potentially significant costs are those preparing educational or instructional material. All references to the primary statements will need to take account of the title change; this could necessitate far reaching revisions in some contexts with the attendant costs of reworking and reprinting. There is also the less tangible cost that changing the name will have on the consumers of educational material in terms of the potential confusion caused. For students part way through a course of study, changing an important if still unfamiliar term could lead to uncertainty and misunderstanding, this would be increased where superseded publications were still in circulation that used the previous terminology.

Q6: Do you have any other comments on the proposals?

17. The exposure draft has highlighted the introduction by IFRS 9 of parts (aa) and (ca) into paragraph 82 of IAS 1. These are currently unfamiliar to those applying EU endorsed IFRS. While the Board is reviewing IAS 1 with the objective of improving presentation in the performance statements we suggest that these two new provisions be examined. We see no reason why these two items should be singled out for presentation on the face of the income statement. They risk reducing clarity and we are concerned that they represent 'mission creep' whereby the creation of new standards results in the cluttering of existing IFRS by unnecessary incremental provisions.

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