

Jonathan Faul  
Director General  
European Commission  
Directorate General for the Internal Market  
1049 Brussels

21 October 2011

Dear Mr Faul

**Adoption of the Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income***

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (the Amendments), which were issued by the IASB on 16 June 2011. The Amendments were issued as an Exposure Draft in May 2010 and EFRAG commented on that draft.

The objective of the Amendments is to make the presentation of the increasing number of items of other comprehensive income clearer, and to assist the users of financial statements in distinguishing between the items of other comprehensive income that can be reclassified subsequently to profit or loss, and those that will never be reclassified to profit or loss.

The Amendments become effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted, however entities shall disclose that fact.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued its initial assessment for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that they:

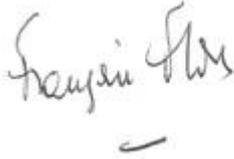
- are not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

*Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Françoise Flores', with a small horizontal line underneath.

Françoise Flores  
**EFRAG, Chairman**

## **APPENDIX BASIS FOR CONCLUSIONS**

*This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (the Amendments).*

*In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.*

*In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.*

### **Does the accounting that results from the application of the Amendments meet the criteria for EU endorsement?**

- 1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:
  - (a) are not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
  - (b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered, based only on evidence brought to its attention by constituents, whether it would be not conducive to the European public good to adopt the Amendments.

### *Approach adopted for the technical evaluation of the Amendments*

- 2 The Amendments introduce three changes to IAS 1 *Presentation of Financial Statements*, which are considered separately below. In particular, the Amendments:
  - (a) Change the non-mandatory title of the 'statement of comprehensive income' to the 'statement of profit or loss and other comprehensive income' (other titles continue to be permitted).
  - (b) Require an entity to present separately items of other comprehensive income that may be reclassified subsequently to profit or loss (recyclable) separately from those that cannot be reclassified to profit or loss (non-recyclable).

## Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

- (c) Require an entity to present income tax related to recyclable items of other comprehensive income separately from income tax related to non-recyclable items, if other comprehensive income is presented before tax.

### *Amendment A – Change to the title*

- 3 The quality of the information provided will not be affected by the change in the non-mandatory title.

### *Amendment C – Allocation of income tax to two groups of items of other comprehensive income*

- 4 EFRAG observes that the requirement to allocate income tax to separate groups of other comprehensive income is consistent with the current requirement in paragraph 90 of IAS 1 *Presentation of Financial Statements* to disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes. Therefore, the overall quality of information provided will not be affected by the requirement to present income tax related to items of other comprehensive income that can be reclassified to profit or loss (recyclable) separately from income tax related to items of other comprehensive income that will never be reclassified, if other comprehensive income is presented before tax.

### *Amendment B – Disaggregation of items of other comprehensive income*

#### Relevance

- 5 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 6 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.
- 7 The Amendments do not affect the content of other comprehensive income, as they do not address the issue of which items should be recognised in other comprehensive income. Although the Amendments do not change the reclassification requirements set by individual IFRS (i.e., what can be reclassified to profit or loss and what cannot), they would result in a clear presentation of two types of items of other comprehensive income. This will help users to decide which items can potentially affect profit or loss and should be taken into account in projecting future cash flows, without referring to the requirements of each individual IFRS. Thus information resulting from this Amendment will be relevant for the users of financial statements.
- 8 EFRAG's overall assessment is that the Amendments, on balance, would result in the provision of relevant information; and therefore they satisfy the relevance criterion.

#### Reliability

- 9 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free

## Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

- 10 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 11 EFRAG notes that the Amendments do not affect the content of other comprehensive income (i.e., 'what is presented'), rather they specify how different types of items should be displayed (i.e., 'how it is presented').
- 12 As the Amendments do not affect 'what is presented', the reliability of information from the content perspective is not affected.
- 13 In respect of 'how it is presented', entities would follow the requirements of individual IFRS to determine whether an item of other comprehensive income may be subsequently reclassified or not. This exercise does not involve significant judgements or estimates, and would not raise any significant issues concerning freedom from material error and bias, faithful representation or completeness.
- 14 For the reasons stated above, EFRAG's overall assessment is that the Amendments satisfy the reliability criterion.

### Comparability

- 15 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 16 EFRAG has considered whether the Amendments result in transactions that are:
  - (a) economically similar being accounted for differently; or
  - (b) transactions that are economically different being accounted for as if they are similar.
- 17 As indicated above, the Amendments do not address accounting requirements; rather they specify presentation requirements for items recognised within other comprehensive income. These presentation requirements will bring more clarity about which items of other comprehensive income can be subsequently reclassified to profit or loss, and which cannot. This will positively affect comparability between entities.
- 18 For the reasons stated above, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

### Understandability

- 19 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 20 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about

## Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

relevance, reliability and comparability. For example, information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable, and vice versa.

- 21 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.
- 22 EFRAG notes that in applying the Amendments, entities will follow the requirements in the existing standards; therefore the Amendments themselves do not introduce any new complexities that may impair understandability. On the contrary, they would help users to distinguish between items that can potentially affect profit or loss and those that will not, without referring to the requirements of each individual IFRS. This would improve the understandability of information presented in other comprehensive income.
- 23 For the reasons stated above, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion.

### *True and Fair*

- 24 EFRAG has decided that the information resulting from the application of the Amendments would not be contrary to the principle of true and fair view.

### *European public good*

- 25 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendments.

### **Conclusion**

- 26 For the reasons set out above, EFRAG's has decided that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.