



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

Sir David Tweedie
International Accounting Standards Board
First Floor, 50 Cannon Street
London EC4M 6XH
United Kingdom

30 September 2010

Exposure Draft – Presentation of Items of Other Comprehensive Income

Dear Sir David

The Committee welcomes the opportunity to comment on the International Accounting Standards Board's Exposure Draft (ED) *Presentation of Items of Other Comprehensive Income*. As you are aware, the Committee has a strong interest in high quality financial reporting standards for banking organisations. Our interest has been particularly heightened since the April 2009 call by the G20 Leaders for "accounting standard setters to work urgently with supervisors to [...] achieve a single set of high-quality global accounting standards"¹ as an action to strengthen financial supervision and regulation.

The Committee has previously commented to the Board² on the presentation of Other Comprehensive Income (OCI) and Profit or Loss in our April 2009 comment letter on the Discussion Paper (DP) *Preliminary Views on Financial Statement Presentation*.³ We cautioned that the presentation of Comprehensive Income and its components in one statement is likely to obscure the difference between "net income" items and "OCI" items⁴ and noted that a clear distinction between these items is important.⁵ The most pervasive reason for making this distinction is

¹ G20 Communiqué, *Declaration on strengthening the financial system*, London, 2 April 2009, available at www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf.

² Board and IASB are used interchangeably in this comment letter.

³ Refer to the April 14, 2009, comment letter from the Committee to the IASB on the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation*, which is available at www.bis.org/bcbs/commentletters/iasb25.pdf.

⁴ This includes OCI items that can and cannot be reclassified to Profit or Loss.

⁵ The Committee's position is broadly consistent with the views of respondents on the 2006 Exposure Draft that resulted in the issuance of IAS 1 *Presentation of Financial Statements* (2008). In particular, paragraph BC 50 of IAS 1 states:

"Most respondents preferred the two-statement approach because it distinguishes profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two

because there has been a specific rationale for each of the Board's past decisions to present certain items in OCI rather than Profit or Loss.

The Committee considers Profit or Loss to be an established measure of performance that is central in financial reporting. However, the Committee believes that in the absence of well developed conceptual criteria for classification of items in the OCI category, Profit or Loss presented as a separate section of a single performance statement blurs the information provided to users.

It is also unclear whether blurring the distinction between Profit or Loss and OCI would be an improvement for users and investors. This is illustrated by paragraph 7 of IAS 1, which provides a list of the gains and losses that are components of OCI. This list has resulted from a series of individual decisions in the past and indicates that the Board wanted to keep OCI separate from Profit or Loss. It would be inappropriate to reduce the distinction between OCI and Profit or Loss by moving to a single statement without reconsidering the treatment of OCI in the relevant standards. The Board's intention to maintain a clear distinction between OCI and Profit or Loss for meeting users' needs can be better achieved by maintaining a two-statement approach.

In addition, as explained in the ED, respondents to the October 2008 discussion paper on financial statement presentation were split on whether an entity should present comprehensive income and its components in a single statement or in two separate statements.⁶ The Committee is of the view that there is insufficient support to propose the use of only one statement at this time. Finally, as the IASB has no plans to eliminate Profit or Loss as a measure of performance,⁷ there is no compelling reason to combine this measure with a different and separate measure (OCI) in one statement. On the contrary, given that Profit or Loss will continue to measure performance, there is a strong argument for allowing it to remain in a separate statement.

Thus we would encourage the Board to undertake a more fundamental conceptual project to develop guiding principles that would enable a clear distinction between OCI and Profit and Loss items.⁸ Subsequently the Board could reconsider the role of OCI in each of the Standards where it currently appears – as well as those where its use might be appropriate in future – before any changes are made to presentation. This approach would support the Board's stated objective of meeting user needs while maintaining Profit or Loss as a key measure of performance.⁹

These comments have been prepared by the Committee's Accounting Task Force (ATF), chaired by Sylvie Mathérat, Director of the Banque de France, based on the

separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income."

⁶ Refer to paragraph BC 10.

⁷ Refer to paragraph BC 20.

⁸ The IASB acknowledged in paragraph BC 15 that it has not set out a conceptual basis for how it determines whether an item should be presented in OCI.

⁹ Refer to paragraphs BC 18 and BC 19.

work of the ATF's Financial Statement Presentation Work Team, chaired by Karen Stothers (Canada's Office of the Superintendent of Financial Institutions). If you have any questions regarding our comments, please feel free to contact Sylvie Matherat (+33 1 4292 6579), Karen Stothers (+1 416 973 0744), or Rob Sharma at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Nout Wellink', with a stylized, flowing script.

Nout Wellink