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Financial Accounting Standards Board
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By e-mail to: director@fasb.org
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30 June 2010

Re: Comments to Proposed Accounting Standards Update Comprehensive Income (Topic 220)

We appreciate the opportunity to comment on FASB's Proposed Accounting Standards Update Comprehensive Income (Topic 220) Statement of Comprehensive Income May 26, 2010. By way of introduction, the undersigned are both members of the Accounting Standards and Financial Reporting Board of the Institute of CPAs in Israel. Ehud Lurie also has varied and long experience in the business and commercial worlds, including M&A activity worldwide and public company reporting. He has served as CEO and CFO in several major publicly traded companies in Israel. Shlomi Shuv is the head of the Accounting Program at one of the foremost private colleges in Israel, the Interdisciplinary Center (IDC) College located in Herzliya, north of Tel Aviv and advises as to IFRS matters to publicly traded companies in Israel.

As a general comment we want to propose an alternative model for OCI recognition and alternative format for the Statement of Comprehensive Income that has been developed by the undersigned. **(Kindly see our article that follows this letter.)**

Our proposed model is a comprehensive treatment for the OCI issue and is based on the Conceptual Framework for Financial Reporting. Our model meets the target of making more relevant the Statement of Profit or Loss and Other Comprehensive Income, which is the primary report that measures and presents the performance of the reporting entities.

Profit or Loss, or more commonly known as Profit and Loss (P&L), has always been a significant statement for most reporting entities. The primary reason lies in the fact that the P&L is the basis for evaluating the ability of reporting entities to generate profits in the future. This issue is reflected, among others, by the various earning multipliers which are used often in appraising companies and in determining acquisition transaction prices. Executive pay is often based on performance as measured by the P&L. Performance under financial covenants as well as financial ratings rely on current profitability ratios. In addition, the P&L statement is the most reviewed and examined report by investors, credit providers, analysts, the financial press and others. Although during the past few years, there have been many changes in performance measurement, such as Comprehensive Income reporting, Earnings Per Share continues to calculate on the basis of net profit (loss) and will continue in this manner in the future.

There can be no dispute, therefore, that the relevancy of the P&L is important for the public trust in financial reporting. Any harm to the relevancy of the P&L, on the other hand, will lead the search for alternative solutions by various economic reports and non-GAAP adjustments.

Those affected by this problem include not only the direct users of the financial statements, as well shareholders and credit providers, but also indirect users for such purposes as corporate law requirements (in connection with distributable earnings as dividends), tax authorities and others. One should not underestimate the difficulties resulting from relying on accounting rules for distribution of dividends, on the relationship which exists today in practice, in some countries, between shareholders and creditors.

The model that we offer that will be detailed in section 3, includes structured methodology and creates a distinction between realized and unrealized income and expenses on the basis of the assets and liabilities from which they derive. According to our model, changes in fair value of non-financial assets and liabilities and specific financial instruments will be charged to OCI and will be recycled to P&L upon being realized in the future. As a result, retained earnings represent realized profits.

As mentioned above, our proposed model is described in detail in our article (below), and is part of our response to Proposed Accounting Standards Update Comprehensive Income (Topic 220) from May 2010.

Please also note our comments to the specific questions the Board raised in the ED, as follows:

Question 1: Do you agree that requiring a continuous statement of comprehensive income will improve the comparability, transparency, and understandability of financial statements such as relationships between changes in the statement of financial position, the components of other comprehensive income, and the components of net income in each period? If not, why not, and what changes would you suggest to the amendments in this proposed Update?

Answer 1: We agree. The Other Comprehensive Income items, although not yet recycled to the P&L, are part of the performance measurement of the reporting entity although they represent profit or losses that have not yet realized and probably will be different until realization.

Question 2: Do you agree that the option should continue to report the tax effect for each component of other comprehensive income either in the statement of comprehensive income or in the notes to the financial statements?

Answer 2: The disaggregation of the tax effect on each item separately is too much information that is not really needed. In our opinion, the tax element in the OCI should be separated only between the changes in fair value for all items together and the recycled transactions for all items together. It is important though, that in the notes there will be a clear distinction between the current tax and the differed tax effect in OCI.

Question 3: Do you believe that a requirement to display reclassification adjustments for each component of other comprehensive income in both net income and other comprehensive income in the statement of comprehensive income would improve the understandability and comparability of financial statements?

Answer 3: We believe that the disaggregation should be done only in one of the two. Probably the display of the reclassification adjustments for each component of other comprehensive income in the OCI section is more reasonable. In the P&L, it should be included in the relevant item or displayed in the notes of such item.

Question 4: What costs, if any, will a reporting entity incur as a result of the proposed changes?

Answer 4: We believe that the proposed changes will incur one time immaterial costs

Question 5: The Board plans to align the proposed effective date of the amendments in this proposed Update with the effective date of the amendments in the proposed Update on financial instruments. Are there any significant operational issues that the Board needs to understand to determine the appropriate effective date for the amendments in this proposed Update?

Answer 5: NO. This is an excellent timing.

Question 6: The amendments in this proposed Update would not change the guidance on the calculation and display of earnings per share. Do you believe that the Board should change the guidance on earnings per share? If so, what changes would you recommend and why?

Answer 5: NO. Earnings per share should reflect only the P&L.

Sincerely,

Ehud Lurie &
Shlomy Shuv

Returning the Relevancy of the P&L: Proposed Model

Ehud Lurie, CPA (Isr.) Shlomi Shuv, CPA (Isr.) [1]*

1. Introduction

Profit or Loss, or more commonly known as Profit and Loss (P&L), has always been a significant statement for most reporting entities. The primary reason lies in the fact that the P&L is the basis for evaluating the ability of reporting entities to generate profits in the future. This issue is reflected, among others, by the various earning multipliers which are used often in appraising companies and in determining acquisition transaction prices. Executive pay is often based on performance as measured by the P&L. Performance under financial covenants as well as financial ratings rely on current profitability ratios. In addition, the P&L statement is the most reviewed and examined report by investors, credit providers, analysts, the financial press and others. Although during the past few years, there have been many changes in performance measurement, such as Comprehensive Income reporting, Earnings Per Share continues to calculated on the basis of net profit (loss) and will continue in this manner in the future.

There can be no dispute, therefore, that the relevancy of the P&L is important for the public trust in financial reporting. Any harm to the relevancy of the P&L, on the other hand, will lead the search for alternative solutions by various economic reports and non-GAAP adjustments.

Over the last decades the accounting standardization began to use Other Comprehensive Income (OCI) as a tool for deferring the recognition of certain profits and losses. Although many years have passed since the first use of this tool, no one until now has dealt with the theoretical infrastructure that differentiates the cases in which items are to be recognized in the P$L or deferred to OCI. Recently, new items are added to OCI sporadically and without structured methodology.

We have witnessed last year a new phenomenon in the IFRS - income and expenses are charged through OCI to equity and are not to be included in the P&L in the future. This phenomenon represents a clear growing trend of the IASB. It should be mentioned that the only case in the past that was referred to this unusual category was the Revaluation model of fixed assets. According to IAS 16, the reevaluation model requires the charge of the differences of revaluation of fixed assets directly to equity without recycling them to the P&L. Although the theoretical basis for this concept was not provided in the past, we can assume that the Capital Reserve derived from the Capital Preservation Concept that does not recognize the revaluation of fixed assets as profit - unlike the Financial Capital Concept, both established in the Conceptual Framework. However, we should keep in mind that the reevaluation model is very problematic, and therefore rarely implemented by the companies that adopt IFRS.

Recent examples of this trend are as follows:

A. Actuarial profits or losses - According to the present policy of IAS 19 regarding imputed actuarial profits or losses to retained earnings thorough OCI, without recycling, is an accounting policy alternative. Moreover, according to the proposed amended to IAS 19, this accounting policy will be the mandatory.

* Both authors are members of the Accounting Standards and Financial Reporting Board of the Institute of CPAs in Israel. Ehud Lurie served as CEO & CFO in several major publicly traded companies in Israel. Shlomi Shuv is the head of Accounting Program at the Interdisciplinary Center (IDC) College, Herzliya

B. Measurement of financial assets – The recently published IFRS 9, allows the selecting of accounting policy whereby the investment in equity instruments may be measured at fair value, and changes in fair value are recorded to OCI without recycling, except for dividends.

C. Credit risk - In accordance with the proposal for a new Financial Instruments standard, measurement of financial liabilities at fair value to the P&L will result in the charge of the interest component to OCI and it will not be recycled to P&L in the future in case of early extinguishment.

In view of changes in the IFRS for SMEs which predict changes that will be adapted to the full IFRS in the future, one can even get a hint of this new non-recycling trend. As published, IFRS for SMEs stipulates that Translation Differences accumulated from translation of foreign operations will not be recycled to the P&L upon realization of foreign activity as opposed to the rule determined in IAS 21.

An attempt to offer a solution to the fact that several items are recycled and some are not, is included, seemingly, in the new proposal for the amendment of IAS 1 in connection with OCI that was published in May 2010. According to the proposed amendment, there will be one statement of Comprehensive Income under a new title: "STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME", which will include both P&L and OCI. According to this proposal, the report will distinguish between recycled items to P&L and to items that will not be recycled. More details regarding the new proposal are included in section 2 below.

However, the solution mentioned above is only cosmetic and an attempt to evade the real problem. The main problem is that there is no theoretical infrastructure for today's OCI accounting, thereby creating inconsistencies in relation to other cases in which the accounting standardization requires the recycling of OCI items to P&L at the realization stage. Examples include: translation differences for foreign activity, results of foreign investment hedging, and the effective portion of the change in fair value of hedging cash flows and changes in fair value of financial assets available for sale. Moreover, according to IFRS 9, an entity may choose different accounting policies for different investment items, so that even the reporting entity's financial statements may lack of consistency in accounting treatment of identical items.

The trend of the IASB on this conceptual problem is leading to a growing gap between IFRS and US GAAP, in complete contradiction to the convergence process of recent years. It is important to emphasize that the policy of the FASB requires to recycle to P&L all the sums that were charged eventually to OCI. A recent example to this trend is the proposal for a new Financial Instruments standard published by FASB. Contrary to IFRS 9, the FASB proposal determines the recycling from OCI to P&L of profits or losses upon realization of financial instruments, as well as the recycling of differed issuing costs of financial assets from OCI during the life of the instrument as an adjustment to the yield of the instrument.

Those affected by this problem include not only the direct users of the financial statements, as well shareholders and credit providers, but also indirect users for such purposes as corporate law requirements (in connection with distributable earnings as dividends), tax authorities and others. One should not underestimate the difficulties resulting from relying on accounting rules for distribution of dividends, on the relationship which exists today in practice, in some countries, between shareholders and creditors.

The model that we offer that will be detailed in section 3, includes structured methodology and creates a distinction between realized and unrealized income and expenses on the basis of the assets and liabilities from which they derive. According to our model, changes in fair value of non-financial assets and liabilities and specific financial instruments will be charged to OCI and will be recycled to P&L upon being realized in the future. As a result, retained earnings represent realized profits.

Our model does not refer to measurement issues but exclusively to recognition and presentation issues. However, the proposed model may improve dealing with measurement issues. For example, the model may assist n measuring financial liabilities at fair value by including changes in their fair value arising from changes in the issuer's credit quality (risk) in the statement of the Financial Position, but not in net profit (or loss), as will be explained below.

Examples for transactions that according to the proposed model should be charged to OCI are as follows:

- Changes in fair value of Investment Property will be charged to OCI and will be recycled to P&L upon the realization of the assets.
- Profits from the theoretical realization recognized upon obtaining control of a subsidiary in a business combination should be charged to OCI. The profits that have been driven from identifiable assets will be recycled to P&L along the depreciation period, while goodwill will be recycled upon the realization. Similarly, upon loss of control, the unrealized "profit" from the remaining unsold shares will be charged to OCI until the shares will be actually sold.
- Actuarial changes from employees' benefits will be charged to OCI as one of the accounting alternatives of IAS 19, and will be recycled to P&L along the life of the commitment.

2. The Project on Presentation of Financial Statements

In recent years, a joint project has been conducted by the IASB and FASB named "Financial Statements Presentation" (FSP). The project target is to establish a new format for the three main financial statements, Statement of Financial Position (former balance sheet) (SFP), Statement of Comprehensive Income (SCI) and Statement of Cash Flow (SCF), in order to make them more useful for the users of financial reports, especially investors and creditors.

One of the aims of the proposed presentation format, that is expected to be in the form of an amendment to IAS 1, is to allow cohesiveness in the format of the three main reports, which are divided for this purpose, into six identical sections and a secondary division into categories. According to the proposal, the classification for each section and each category will be first presented in the Statement of Financial Position which will determine the classification for the SCI and SCF. This means that the classification of revenues and expenses, gains and losses, and receipts and payments will be in accordance with the assets and liabilities that created them. The classification in entities which have several segments of activity will be based on the use of assets and liabilities in the segments.

The general format of the statements formulated for the ED that is expected to be published soon, is as follows:

SFP	SCI	SCF
Business	Business	Business
Operating	Operating	Operating
Financing arising from operating	Financing arising from operating	
Investing	Investing	Investing
Financing	Financing	Financing
Debt + other	Debt +other	Debt + other
Equity		Equity
	Effect of multicategory trans	Effect of multicategory trans
Income taxes	Income taxes	Income taxes
Discontinued ops	Discontinued ops, net of tax	Discontinued ops
	OCI, net of tax	

The Operating category will include assets and liabilities that management views as related to the central purpose(s) for which the entity is in business, i.e. assets and liabilities that generates revenues in core business of the entity. All of the operating cycle of the entity is included in the operating category. Cash is always classified in the operational category.

The Investing category will include individual assets and liabilities that produce return that is not included in the entity's revenues, and have no significant synergy with the entity activity, i.e. not included in the entity's core business.

The Financing category will include all the entity's funding, debt and equity. Debt will include arms length loans at market conditions, dividends paid, stock put option of the entity shares and commitments to purchase shares of the entity.

A separate category in the Statement of Cash Flow and the Statement of Comprehensive Income, will present Multicategory transactions, categories that reflect acquisition or exercise of assets and liabilities which are classified in different categories in the Statement of Financial Position.

Taxes on income will be presented in a separate category except for taxes that refer to Discontinued Operations and Other Comprehensive Income.

As part of the project "Financial Statements Presentation", the IASB published in May 2010 an ED proposal for partial changes in IAS 1, determining that the P&L and OCI will be consolidated into one statement. The section of the OCI will be divided into two sub sections, one for transactions that will be recycled in the future to P&L and another one for transactions that will not be recycled, so that their inclusion in OCI will transfer them to the equity without being ever recognized in the P&L. The FASB has published a parallel proposal for updating the US standard, cancelling the option of presenting OCI items in the Statement of Changes in Equity, but the US format does not include the sub-division of OCI due to the fact that the US GAAP requires recycling of all OCI items eventually. The proposal states that earnings per share should be reported only on the subtotal of the P&L before OCI. However, the division of the results between controlling rights and non-controlling rights should be presented for the P&L and the total Comprehensive Income as well. IASB explains the partial proposal to IAS 1 out of the project of PFS by the growing usage in OCI which is expressed in Financial Reporting Standards as IFRS 9, and the proposal to amend IAS 19 and by the expected expansion of usage of OCI in the future.

The proposal is fairly liberal as to the title of the integrative statement: "Statement of the Profit or Loss and Statement of Other Comprehensive Income" and allows the use of alternative titles such as "Statement of Comprehensive Income" or any other title which the reporting entity will find relevant and reflects the nature of the statement.

3. Our Proposed Model

3.1 General

Our proposed model includes structured methodology and creates a distinction between realized and unrealized income and expenses on the basis of the assets and liabilities from which they derive. According to our model, changes in fair value of non-financial assets and liabilities as well as specific financial instruments will be charged to OCI and will be recycled to P&L when realized in the future. As a result, retained earnings will present realized profits only.

Our model does not refer to measurement issues but exclusively to recognition and presentation issues. However, the proposed model can assist in dealing with measurement issues. For example, the model may assist in measuring financial liabilities at fair value by including changes at fair value of liabilities arising from changes in the issuer's credit quality in the statement of the Financial Position, but not in net profit (or loss), as will be explained below.

The proposed model creates a distinction between realized income and expenses and unrealized income and expenses on the basis of the accounting type of the assets or liabilities that created them. The following table illustrates that distinction:

Realized	P&L	P&L
un-Realized	OCI	OCI or P&L
	Non-Financial Items	**Financial Items**

According to our model, unrealized income and expenses from non-financial items and several financial instruments, will be charged to OCI and will be recycled to net profit (or loss) upon realization in the future. As a result, retained earnings will represent only realized profits. An example to this model is the treatment of assets available for sale in US GAAP and IFRS before the changes offered by IFRS 9.

Our model refers to Non-Financial items that IAS 39 applies to, as financial items. The financial items will be treated, according to the proposed model, depending on their nature and the designation determined by the reporting entity. For example, a change in fair value of equity instruments held for trading will be recognized directly to P&L while changes in fair value of equity instruments available for sale will be charged in OCI until the sale, and then recycled to P&L.

The significant advantage of the proposed model is to maintain the relevance of net income (or loss) in measuring business outcomes without losing the fair value or any other economic value at the Statement of Financial Position.

The reclassification from OCI to net income resulting from realization (recycling), will be presented in the relevant part of the P&L (operating, financing, taxes, etc.). The proposed model suggests that all OCI items will be recycled eventually.

3.2. Demonstration of the model

Example I - Profits resulting from the revaluation of current holding as a result of acquiring control

Company A holds 40% of the shares of Company B since the date of its establishment. Company A does not control company B and implements the equity method. Company B's equity is $ 100 million and the fair value is $ 1,000 million (assume a linear distribution). Company A purchases an additional 25% of Company B shares in exchange for $ 250 million and achieves control. Assume that the excess price over book value is set at 70% for goodwill and 30% for identifiable assets (linear average depreciation period of 3 years). The non-controlling interests remain with 35% of the shares of Company B. The accounting policy of Company A is to measure non-controlling interests at their fair value on the date of the Business Combination.

The treatment as of today - According to IFRS 3R and FAS 141R the "Conceptual Realization" is applied at the time of obtaining control, and accordingly, Company A would recognize a profit of $ 360 million = ((1000-100) * 40%). The difference between the fair value and book value of Company B is $ 900 million, of which $ 585 million refers to the controlling interest, out of which $ 360 million derives from the prior 40% holdings held before obtaining control, and the other $ 225 million derives from the additional 25% interest acquisition. From that said $ 900 million difference, $ 630 million relates to goodwill and the $ 270 million balance relates to depreciable intangible assets. In the coming 3 years Company A will recognize, as well, depreciation of intangible assets of $ 270 million (= (1000 - 100) * 30%), $ 90 million per year. Out of the $ 270 million, $ 94.5 million which refers to the part of the non-controlling interest in identifiable assets will be added to non-controlling equity as at the acquisition of control). $ 220.5 million (= 900 * 35% * 70%) of goodwill related to non-controlling interest will be charged to its part in the equity as well.

The treatment in accordance with the proposed model - According to our model, the conceptual profit of Company A of $ 360 million will be credited to OCI, $ 252 million (70%) refers to goodwill and $ 108 (30%) million refers to identifiable assets. This profit will be recycled to P&L as follows:

a) Identifiable assets – the OCI that amounts to $ 108 million and refers to identifiable assets will be recycled to P&L along with the depreciation of the assets, namely $ 36 million per year for three years. As a result, depreciation will be totaled each year to $54 million (= 90 - 36). $22.5 million (= (90 * 35%) – 36) refers to controlling interest and $31.5 million (= 90 * 35%) to the non-controlling interest. One may see that the portion of the intangible assets depreciation that relates to the controlling interest is equal to the newly acquired 25% shares (= 90 * 255).

b) Goodwill - the OCI amounts to $ 252 million (= 360 * 70%) that relates to goodwill that will be presented as Capital Fund until the loss of control or in an event of impairment and is attributed only to Company A.

Example II – The credit risk component of the financial liabilities

The company issued $ 100 million par value bonds on January 1, 2010 at their par value. The bonds bear 6% interest paid at the end of the year, reflecting the appropriate market interest rate risk. At the end of 2010, as a result of deterioration of the company's credit risk, the market price of the bonds is reduced to $ 80 million. The risk free rate as of the end of the year is 2%.

The treatment as of today if the fair value model is elected - Other than the current interest expenses of $ 6 million, a profit of $ 20 million would be recognized in the P&L.

The treatment in accordance with the proposed model - Other than the current interest expenses, the $20 million would be charged to OCI and recycled to P&L during the life of the bonds according to the interest method, or in case of repurchase of the bonds by the company. The value of the capital fund created from the changes in the fair value will vary in accordance with the changes in the bonds market price.

Example III - Actuarial gains and losses

The company employs a fixed number of employees. Actuarial liability balanced at December 31, 2009 and December 31, 2010 is $ 100 million and $ 120 million, respectively. Actuarial losses in 2010 amounted to $ 5 million. The remaining actuarial losses that have not been debited to the P&L at December 31, 2009 are $ 15 million. At any given time the employees are expected to work for the company in average for an additional 10 years.

The treatment as of today - There are several alternative accounting policies according to the present financial reporting standard, including the policy that will be mandatory under the proposed amendment to IAS 19. According to the proposal, the commitment is measured at the present value of actuarial commitment, when actuarial differences are charged to OCI and will never be recycled to P&L.

The treatment in accordance with the proposed model - The liability is measured in accordance with the present value of the actuarial commitment, and the actuarial profits or losses are charged to OCI until recycled to the P&L. An additional expense of $ 1.5 million will be included in 2010, due to the recycling of OCI ($ 15 million) over 10 years. The charges to the capital fund will vary according to actuarial changes applied along the amortization period.

Example IV - Investment Property

The company acquires Investment Property for the amount of $ 100 million (one-half is attributed to the land) at January 1, 2010. The useful life of the building is 40 years. On December 31, 2011 the fair value of the investment property is $ 120 million.

The treatment as of today - Assuming that the company chooses the fair value model, the company will recognize in the P&L the $ 20 million profit from revaluation.

The treatment in accordance with the proposed model - The company will charge the changes in fair value through OCI to a capital fund. This profit will be recycled to the P&L when the investment will be sold. As an alternative, the model allows also a recognition of the depreciation costs of $ 1.25 million (= 100 * 1 / 2 * 1 / 40) in the P&L and a charge $ 21.25 million (= 120 - (100 - 1.25)) to the OCI. The OCI will be recycled to the P&L also in an event of impairment.

4. An Alternative Format of SCI

As an alternative format to the one proposed by the Board of the "Financial Statements Presentation" project, we propose a format that, in our opinion, is more relevant, more useful and more understandable. We suggest an allocation to different sections and categories and different classifications from those anticipated to be in the proposal of the IASB.

According to our format, the Statement of Comprehensive Income is divided into five sections:

1) **Business Current Operations** - All ongoing regular activity of the reporting entity's business, with the usual subtotals for gross profit and operating profit less the relevant tax effect of this section.
2) **Business Non-Current Operation** - Realized capital gains, profits and losses, income and expenses of a non-recurrent nature, etc. less the relevant tax effect of this section.
3) **Financial Activities** – Interest income and expenses, exchange rate differences, the results of financial hedge transactions less the relevant tax effect of this section.
4) **Profit or Loss from Discontinued Operations** - Net of tax according to existing presentation format.
5) **Other Comprehensive Income** – This section represents the charges to OCI items net of the recycled transactions presented in two different sub-sections as will be explained in the following paragraph. Each part will have a subtotal and a total for the whole OCI section before and after tax. The tax effect of the OCI section will be presented in a separate line.

According to the proposed format, OCI transactions should be split into two sub-sections. The first sub-section is "Changes in Fair Value" transactions which reflects the changes in fair value of assets and liabilities charged against Capital Funds. The second sub-section is the reclassification of the OCI transactions from the OCI section to the P&L which are known as "Recycling" transactions. The Recycling also transfers the OCI transactions from the Capital Fund to Retained Earnings due to the reclassification to P&L. The Recycling transactions appear twice in the Statement of Comprehensive Income in opposite signs, in the OCI and in the P&L, so they have no effect on the total "sum up" of comprehensive income.

For the benefit of usability and transparency, the transactions will be presented separately by issue in each sub-section of the OCI section before the tax effect. The recycled transaction will be presented in each relevant section of the P&L as a separate recycling transaction or as a part of the same nature of line item as long as an appendix will show the reconciliation of the recycling between the OCI and P&L.

According to the proposed model, income taxes will be presented separately for each section of the Statement of Comprehensive Income and not only in the discontinued and OCI sections, in order to present the net of tax contribution of each section. This is due to the fact that different tax rates may be applied on the different sections since corporate tax rates differ from capital gains tax rates in many countries. A reconciliation and summing up of all the tax transactions in the SCI should be presented in the income tax note disaggregating between Deferred Taxes and Current Taxes. However, since this issue is not essential to our model, we do not rule out the approach of the concentration of all income taxes after the financing section, as proposed by the IASB.

Exchange rate differences from foreign-currency assets and liabilities denominated in a different currency from the Activity Currency will be presented as part of the financial section, since they result from the financial risks against which the entity chose not to hedge.

When OCI items are realized, the balance of changes in fair value up to the realization price must be recognized in the first sub-section of OCI as well and the total will be recycled.

In summary, the main differences between the format proposed by us, and the format proposed by IASB/FASB as an amendment to IAS 1, are as follows:

1. In the Business Section, our model divides current activities and non-current and one-time transactions, while the IASB format separates between core business and un-synergic investments. For example, Investment Property: In our model the stream of income from the property is current and the change in fair value or the results of realization is non-current. In the IASB's model, both transactions should be classified in the same section since they derive from the same asset.
2. The IASB's format dedicates a separate section for income taxes, excluding taxes for Discontinued Operations and OCI sections that are included in these sections. We include the effect of taxes on each section separately.
3. The IASB's format does not include all finance transactions in the Financing Section since part of the assets that yield financial income or expenses are classified in the Operating Category. We find that a separation of a finance transaction is not only impractical but also reduces the comparability among entities. We believe that all financing and monetary risk transactions should not affect the Operating Category in order to enable better comparison among entities that have different levels of leverage and different monetary risks exposure.
4. Since not all of the outcomes from each asset or liability in our format are included in the same section or category, there is no logic in following the cohesiveness principle to have the same format of SCI and SFP. The Statement of Financial Position in our view should remain as it currently exists. The Financial Position information is a picture as at the end of the reporting period and not an average of the balances during the period. The balances in the SFP do not correlate with the results included for the same items in the SCI and SCF. The financial ratios advantage that the IASB is attempting to achieve, will not materialize. We agree that the same format for the SCI and SCF will increase the usefulness of the both statements and will enable performing reconciliation between them.
5. The OCI section of IASB is divided into two parts: transactions that will be recycled and transactions that will not (according to the ED which was published recently). Since the recycling is mandatory in our model, we propose that the two parts will differentiate between changes in fair value transactions and recycling transactions.

An example of the SCI format according to our model is attached as an appendix.

5. Summary and Conclusion

Our proposed model includes a structured methodology and creates a distinction between realized and unrealized income and expenses on the basis of the assets and liabilities from which they derive. Our model therefore lays the foundation for a theoretical infrastructure of a conceptual framework for the OCI concept.

According to our model, changes in fair value of non-financial assets and liabilities as well as specific financial instruments will be charged to the OCI and will be recycled to the P&L upon realization. As a result, retained earnings will present realized profits only.

Our model does not refer to measurement issues but exclusively to recognition and presentation issues. Nevertheless, our model may assist in dealing with measurement issues. For example, the model may assist with measurement of financial liabilities at fair value so that changes that are driven from the risk of the issuer will be included in the Financial Position but not in the P&L. A more radical example may be the measurement at fair value of exploration and evaluation of minerals, oil &gas assets through the OCI to be recycled to the P&L consistent with the regular income recognition rules.

The advantages of our model are quite clear. The most important one is "Relevancy" of performance measurement based on realization in the P&L and completion of the economic picture in the OCI. This can be accomplished while complying with "Fair Value Accounting." Our model results in consistency in the comparability among entities and between periods.

Appendix – Example of Statement of Comprehensive Income

		For The year Ended 31 December		
		2009	2008	2007
	Note	Thousands US Dollars		
A. Current Business Activity				
Sales – Wholesale		100,000	100,000	100,000
Sales – Retail		40,000	40,000	40,000
Service Revenues		20,000	20,000	20,000
Total revenue		**160,000**	**160,000**	**160,000**
Cost of goods sold		110,000	110,000	110,000
Gross profit		**50,000**	**50,000**	**50,000**
Selling & Marketing expenses		13,000	13,000	13,000
General and Administrative expenses		9,000	9,000	9,000
Research and development		2,000	2,000	2,000
Other Operating Income		(1,000)	(1,000)	(1,000)
Other Operating Expenses		3,000	3,000	3,000
Total Operating Expenses		**26,000**	**26,000**	**26,000**
Profit from Current Business		**24,000**	**24,000**	**24,000**
Income Tax on Operational Business		(6,000)	(6,000)	(6,000)
After Tax Operating Profit		**18,000**	**18,000**	**18,000**
B. Non-Current Business Activity				
Dividend Income		1,400	1,400	1,400
Capital Gains from realization of Invested Property		3,000	3,000	3,000
Restructuring Cost		(4,000)	(4,000)	(4,000)
Recycling from OCI (see detail below) *		3,600	3,600	3,600
Income Tax on Non Operational Business		(800)	(800)	(800)
After Tax Non-Current Business Profit		**2,800**	**2,800**	**2,800**
Total Profit from Business		**20,800**	**20,800**	**20,800**
C. Financing Activity				
Interest Income		400	400	400
Interest Expenses		(1,800)	(1,800)	(1,800)
Currency Rate of Exchange net		600	600	600
Income tax on Financing		200	200	200
Net expense from financing Activity		**(600)**	**(600)**	**(600)**
Net profit from continuing operations		**20,200**	**20,200**	**20,200**
D. Discontinued Operation				
Loss on discontinued operations		**(4,000)**	**(4,000)**	**(4,000)**
Tax benefit		1,000	1,000	1,000
Net Loss from discontinued operations		**3,000**	**3,000**	**3,000**
Net Profit for the Year		**23,200**	**23,200**	**23,200**

Statement of Comprehensive Income (cont.)

	Note	For The year Ended 31 December		
		2009	2008	2007
		Thousands US Dollars		
E. Other Comprehensive Income				
Changes in Fair Value				
Unrealized gain on available-for-sale financial assets		1,100	1,100	1,100
Unrealized gain on cash flow hedge		1,200	1,200	1,200
Foreign currency translation adjustment		1,300	1,300	1,300
Revaluation of Investment Property		1,400	1,400	1,400
Revaluation of PP&E		1,500	1,500	1,500
Actuarial Changes of Employs Benefits		1,600	1,600	1,600
Goodwill from Business Combination		1,700	1,700	1,700
Share of other comprehensive income of associates		1,800	1,800	1,800
Total Changes in Fair Value		**11,600**	**11,600**	**11,600**
Recycling to Profit and Loss				
Realized gain on available-for-sale		(100)	(100)	(100)
Realized gain on cash flow hedge		(200)	(200)	(200)
Foreign currency translation adjustment - subsidiary		(300)	(300)	(300)
Foreign currency translation adjustment - Associate		(400)	(400)	(400)
Profit from realization of Investment Property		(500)	(500)	(500)
Realized Revaluation of PP&E		(600)	(600)	(600)
Recycling of Employs Benefits Actuarial changes		(700)	(700)	(700)
Realized Share of OCI of associates		(800)	(800)	(800)
Total recycling to P&L		**(3,600)**	**(3,600)**	**(3,600)**
Net Other Comprehensive Income before tax		**8,000**	**8,000**	**8,000**
Income Tax on OCI		(1,600)	(1,600)	(1,600)
Net Other Comprehensive Income		**6,400**	**6,400**	**6,400**
Total Comprehensive Income		**29,600**	**29,600**	**29,600**

* The recycling transactions were not split into the various sections of the statement due to convenience reason.