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File Reference No. 1790-100  
Financial Accounting Standards Board  
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30 September 2010

Dear Sir / Madam

**International Accounting Standards Board Exposure Draft: *ED/2010/5 Presentation of Items of Other Comprehensive Income (Proposed amendments to IAS 1)***  
**Financial Accounting Standards Board Exposure Draft: *Proposed Accounting Standards Update Comprehensive Income (Topic 220) Statement of Comprehensive Income (File Reference No. 1790-100)***

We appreciate the opportunity to respond to the International Accounting Standards Board's (IASB's) and the U.S. Financial Accounting Standards Board's (FASB's) (the Boards') exposure drafts of proposals regarding other comprehensive income. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network, including KPMG LLP (U.S.). This letter is being submitted to both the IASB and the FASB.

While we support, as an ultimate objective, a single statement of comprehensive income as it should enhance the comparability among the financial statements and among entities we generally do not believe this project is urgent in light of the Boards' other priorities. However, we would support the IASB's proposed amendment to present items of other comprehensive income (OCI) that will be reclassified subsequently to profit or loss separately from those items that will not be reclassified to profit or loss as this is the only substantive change proposed in the IASB's exposure draft (ED).

We do not support this ED as a separate and urgent project as the changes are not substantive when viewed on their own. However, we note that the FASB's financial instrument exposure

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draft if adopted as proposed would result in a substantial increase in the number and significance of items being recognised in OCI under US GAAP. While we do not support the FASB's proposals in the financial instrument exposure draft (see our comment letter of 2 September 2010), we would agree that if the FASB were to finalize its financial instruments standard in the manner proposed a change in the near term in US GAAP may be needed to eliminate the alternative of reporting comprehensive income within a statement of equity so as to bring greater transparency to the presentation of comprehensive income.

While we would support an IASB amendment to present items of OCI that will be reclassified subsequently to profit or loss separately from those items that will not be reclassified to profit or loss, we believe that such a change could be addressed through the annual improvements process.

Apart from these two issues we believe that the other proposals included in these EDs, which are not substantive, should be considered when finalising the proposals for Phase B of the Financial Statement Presentation (FSP) project. We do not believe that the interaction of the proposals in the IASB's ED with the proposed amendments to IAS 19 and IFRS 9 is sufficient justification to proceed with the ED as a separate project.

Additionally, we believe that the Boards should address in a future project whether or not comprehensive income is a performance measure and consider the consequences of this on whether or not reclassification of items of OCI is appropriate.

Additionally, please refer to our responses on the specific questions. Appendix A to this letter provides our responses to the specific questions raised in the IASB's Exposure Draft. Appendix B provides our responses to the specific questions raised in the FASB's Exposure Draft.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Mary Tokar or Sanel Tomlinson with the KPMG International Standards Group in London at +44 (0)20 7694 8871, or Mark Bielstein or Paul Munter with KPMG LLP in New York at +1 (212) 909-5419 or +1 (212) 909-5567, respectively.

Yours sincerely

  
KPMG IFRG Limited

**Appendix A: Responses to the questions set out in the IASB's Exposure Draft**

*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?*

**KPMG Response:**

As the use of the proposed title for the statement of comprehensive income is voluntary, we believe this would be a non-substantive change to the standard.

We believe that the long title is unnecessarily complicated, confusing and therefore would not become accepted by the preparers and users of financial statements. We recommend that the IASB use a shorter title, for example "Statement of comprehensive income".

*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?*

**KPMG Response:**

We support, as an ultimate objective, a single statement of comprehensive income as it should enhance the comparability among the financial statements and among entities.

However, we do not believe that the proposals would result in a significant change in practice and therefore do not believe that the proposals would be of significant benefit in the short-term.

Accordingly, although we generally support the single statement of comprehensive income, we do not believe that this amendment should be finalised but rather, the issue should be dealt with as a part of the FSP project.

We agree that until the broader question of whether comprehensive income is an earnings measure is resolved, no change should be made to the calculation of earnings per share and its reference to profit or loss. We believe that the IASB together with the FASB should address the consequences of whether or not reclassification of items of OCI is appropriate and the components of comprehensive income in the context of performance measures in the FSP project.

Additionally, we believe there should be a clear distinction in the statement between profit or loss and OCI.

More broadly, we believe that the IASB and FASB need to address the question of whether comprehensive income is a performance or earnings measure.

*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?*

**KPMG Response:**

We support this proposal. We believe, however, that the Boards should seek to address in a subsequent project the issues of recognition in profit or loss or OCI and reclassification to address inconsistencies both within IFRSs and between IFRSs and U.S. GAAP. For example, under IFRSs gains on revaluations of property, plant and equipment are recognised in OCI, while gains and losses on remeasurement of investment properties are recognised in profit or loss. Additionally, there is an inconsistency between IFRSs and U.S. GAAP with respect to whether amounts initially recognised in OCI are reclassified later to profit or loss. Under U.S. GAAP, such items are reclassified eventually into profit or loss, whereas under IFRSs, actuarial gains and losses related to employee benefit plans recognised initially in OCI, for example, are not reclassified into profit or loss.

In the absence of the issues of recognition in profit or loss or OCI and reclassification being fully reconsidered, we believe that the proposed presentation of items of OCI that will be reclassified to profit or loss separately from items of OCI that will not be reclassified to profit or loss will improve the users' ability to distinguish these amounts.

We note that there may be OCI of associates that is never reclassified to profit or loss. Para 82A (b) of the ED and the illustrative example may suggest that the OCI of associates is a separate category and that all amounts are in the 'will be reclassified' category – which we do not believe is a correct interpretation. It should be made clearer that the items of OCI of associates also should be presented either in the 'will be reclassified' category or in the 'will not be reclassified' category.

*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 this proposal? Why or why not? What alternative do you propose and why?*

**KPMG Response:** We support this proposal as a necessary consequence of the changes to the presentation of amounts in OCI.

*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?*

**KPMG Response:**

While we support, as an ultimate objective, a single statement of comprehensive income as it should enhance the comparability among the financial statements and among entities, we believe that the current standard provides sufficient comparability in respect of the presentation of one or two statements in the near term. We believe that the proposals in this ED should be addressed in the FSP project.

However, we agree that the proposed disaggregation of OCI into amounts that will be reclassified into profit or loss and those that will not be reclassified subsequently to profit or loss is an improvement in IFRSs.

Additionally, as noted above, we believe that the Boards should address whether comprehensive income is considered to be a performance measure in the FSP project.

**Other comments**

Additionally, please refer to our comments below, including drafting comments, other than responses to the specific questions:

- In the bottom line of the first illustrative example and in the heading of the second example the expression 'statement of comprehensive income' is used. For the avoidance of confusion we suggest amending the term to 'statement of profit or loss and other comprehensive income' following the proposed change in paragraph 10(b) of IAS 1.
- We do not understand why the second example introduces the term 'net income for the year' instead of profit (or loss) for the year. The term 'profit or loss' is defined in paragraph 7 of IAS 1 and the introduction of a term which is not defined in IFRSs could be confusing.

- Footnote (a) to the second illustrative example relates to the share of profit of associates presented in the profit or loss for the year. However, the explanation relates to the share of OCI of associates and is the same as in footnote (c). We suggest amending the explanation in (a) to “This means the share of associates’ profit or loss attributable to owners of the associates, i.e. it is after tax and non-controlling interests in the associates”.
- The proposals are based on guidance in IAS 39 and the effective date is aligned with IFRS 9. This is confusing. We suggest that examples are provided in the final amendment whereby both entities that early adopt and those that do not are provided with guidance.
- Paragraph 83(b) of the ED: should this be “total comprehensive income for the period attributable to:” – which seems to be what is illustrated in the IG.
- IG (both examples): it would be preferable to change all the line items to “Items that ~~may~~ will be reclassified subsequently to profit or loss” as the term “may” suggests it could be an accounting policy choice. The term “will” is the term used in the actual text of the proposed amendments, but the term “may” also is used in BC29. Similarly, paragraph 91 uses the word “might”. We suggest all references be made consistent to avoid confusion.
- IG (first example): the description of the last item of OCI should read: “Income tax relating to items of other comprehensive income”
- BC35(d): “...and items that will not be reclassified subsequently into profit or loss.”
- BC36: “...believes that the benefits of the proposed amendments outweigh the costs.”

**Appendix B: Responses to the questions set out in the FASB's Exposure Draft**

*Q1 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?*

**KPMG Response:**

We support, as an ultimate objective, a single statement of comprehensive income as it should enhance the comparability among the financial statements and among entities.

The FASB's financial instrument exposure draft if adopted as proposed would result in a substantial increase in the number and significance of items being recognised in OCI under US GAAP. While we do not support the FASB's proposals in the financial instrument exposure draft, we would agree that if the FASB were to finalize its financial instruments project in the manner proposed a change in the near term in US GAAP may be needed to eliminate the alternative of reporting comprehensive income within a statement of equity so as to bring greater transparency to the presentation of comprehensive income.

If the financial instrument project is not finalized as proposed, then we believe that this amendment should not be finalised in the near term but rather, the issue should be dealt with as a part of the FSP project.

Additionally, we believe that no matter what the format is for reporting comprehensive income there should be a clear distinction between net income and OCI. More broadly, we believe that the FASB and IASB need to address the fundamental question of whether comprehensive income is a performance or earnings measure as we believe that this analysis is critical to questions such as whether items of OCI should be recycled to net income and whether earnings per share should be reported for comprehensive income.

*Q2 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?*

**KPMG Response:**

We support the option to allow the reporting of 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.

*Q3 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?*

KPMG Response:

We do not believe that it is necessary to require reclassification adjustments for each component of other comprehensive income to be reported both in net income and other comprehensive income. Further, we believe that in some situations, such a requirement could create difficulty and confusion. For example, in the case of accumulated other comprehensive income items related to defined benefit pension and other postretirement benefit plans, if amounts amortized out of OCI are capitalized (e.g., pension cost for manufacturing labour that is included in inventory), the amount reclassified out of OCI would not equal the amount included in net income for a period. Furthermore, amounts for post-retirement benefits would not necessarily be reported in the same income statement line item even in situations in which the same amount is reclassified from OCI to net income in a period.

*Q4 What costs, if any, will a reporting entity incur as a result of the proposed changes?*

KPMG Response: We do not expect the proposals contained in this exposure draft to be likely to result in significant costs to financial statement preparers.

*Q5 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?*

KPMG Response:

As noted in our comment letter to the FASB (see our comment letter of 2 September 2010 in response to the financial instruments exposure draft), we do not support the Board's proposals on accounting for financial instruments. However, we acknowledge that the FASB's financial instrument exposure draft if adopted as proposed would result in a substantial increase in the number and significance of items being recognised in OCI under US GAAP. As a consequence, we agree that *if* the FASB were to finalize its financial instruments project in the manner proposed then a change in the presentation of comprehensive income in the near term may be needed to eliminate the alternative of reporting comprehensive income within a statement of equity so as to bring greater transparency to the presentation of comprehensive income.

Therefore, we agree that under a scenario in which the FASB finalizes its financial instruments project in the manner proposed that the proposed effective date of the amendments in this proposal should be aligned with the effective date of a final standard on financial instruments.

*Q6 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?*

KPMG Response:

We believe that before this question can be answered, the FASB and IASB need to address the question of whether comprehensive income is a performance or earnings measure. For example, the U.S. Conceptual Framework defines comprehensive income as “the change in equity of a business entity during a period from transactions and other events and circumstances from non-owner sources.” Net income is described in the US Conceptual Framework a *measure of financial performance* resulting from the aggregation of revenues, expenses, gains, and losses that are not items of other comprehensive income. In a somewhat circular fashion, other comprehensive income includes revenues, expenses, gains, and losses that are included in comprehensive income for the period but that are not included in net income. Therefore, it is unclear from either the Framework perspective or from the Boards’ historical deliberations on items of other comprehensive income whether comprehensive income is intended to be an earnings measure or not.

Additionally, as noted in our covering letter as well as in previous comment letters to the Boards, we have stated our belief that the Boards should address the issues of recognition in profit or loss or OCI and reclassification to address inconsistencies between U.S. GAAP and IFRSs. Under U.S. GAAP, such items are reclassified eventually into profit or loss, whereas under IFRSs, actuarial gains and losses related to employee benefit plans recognised initially in OCI, for example, are not reclassified into profit or loss.

We believe that until a consideration of the fundamental question regarding comprehensive income, it is difficult to answer the basis on which earnings per share should be presented or which items of OCI, if any, should be reclassified into profit or loss.

As a consequence, we agree that until the broader question of whether comprehensive income is a performance or earnings measure is resolved, no change should be made to the calculation of earnings per share and its reference to profit or loss. It should be noted that the fact that earnings per share would continue to be calculated and displayed for profit or loss and not comprehensive income would appear to indicate that the Boards do not consider comprehensive income to be a performance measure.