



30 September 2010

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

Dear Sir David:

re: Comments on Exposure Draft
Presentation of Items of Other Comprehensive Income

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, *Presentation of Items of Other Comprehensive Income* put out by the International Accounting Standards Board (the Board). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members exceed 24,000. The CAC is a standing committee of the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants.

General Remarks

As the CAC has been consistently asserting the importance of net income, it highly evaluates the exposure draft's clear pronouncement that "*The Board has no plans to eliminate profit or loss as a measure of performance. Profit or loss will still be presented clearly and will remain the required starting point for the calculation of earnings per share*". (Introduction and BC20). The CAC interprets the proposal to amend 'statement of comprehensive income' to 'statement of profit or loss and other comprehensive income' IAS 1 Paragraph 1 and 10(b)) as a symbol of the Board's renewed appreciation of profit or loss. The CAC thinks it is critically important that this 'profit or loss' be fully recycled so as to maintain a 'clean surplus relationship through the life of a corporation'.¹

¹ When all items in the OCI are fully recycled, the sum of cash flow, net income, and comprehensive income from the birth to demise of a corporation will be exactly the same. This comment letter terms this 'clean surplus relationship through the life of a corporation'. When all OCI items are recycled, two clean surplus relationships will be maintained in a given period, i.e., the first between comprehensive income and total equity (capital, retained earnings, and AOCI), and the second between net income and

Following are the CAC's opinions on some specific questions.

Question 1

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?

In its comment letter to the Board entitled *Comments on the Discussion Paper 'Financial Statement Presentation'*, dated 13 April 2009, the CAC opined that “*Net income is one representative performance indicator of a company's operations. If comprehensive income is considered to add risk exposure information to net income, then prominently disclosing both numbers will enhance decision usefulness.*” Subsequently, the CAC reiterated the same opinion in comment letters to the ASBJ, etc.

The Board's proposal to amend the title is in line with our opinion and the CAC highly evaluates this as a symbol of the Board's renewed recognition of the significance of profit or loss. Assuming this profit or loss is fully recycled so as to maintain a clean surplus relationship through the life of a corporation, the CAC supports the proposal.

Question 2

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?

In its comment letter of 2009 mentioned above, the CAC had divided opinions on one or two statements. The exposure draft proposes not to permit two statements by abolishing IAS 1 paragraph 12 and 81 (2). However, the Board's conclusion that “requiring a statement of profit and loss and other comprehensive income with two sections would maintain a clear distinction between profit or loss and other comprehensive income” (BC13) is convincing, paying ample consideration to two statement supporters. In the illustrations on pages 15 and 16, two performance

equity excluding AOCI (capital and retained earnings). The two clean surplus relationships will more closely tie the balance sheet and income statement than a single clean surplus relationship under partial or no recycling. The CAC thinks retained earnings and AOCI are fundamentally different in terms of hardness and quality of information. Two clean surplus relationships are necessary to clearly reflect this difference.

indicators, “PROFIT (NET INCOME) FOR THE YEAR” and “TOTAL COMPREHENSIVE INCOME FOR THE YEAR”, are clearly and distinctly displayed in one statement. This is in line with our view that prominently disclosing both profit or loss and comprehensive income will enhance decision usefulness. Hence, the CAC supports the proposal.

However, the exposure draft permits the use of other nomenclature including ‘statement of comprehensive income’ (Paragraph 10). Based on the above argument, the CAC insists that only ‘statement of profit or loss and other comprehensive income’ should be used.

Question 3

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?

The CAC is against this approach. The CAC thinks, because of the advantage of maintaining a clean surplus relationship through the life of a corporation, OCI items should be recycled to net income when realized, in the same manner as in Japanese and US GAAP. In our opinion survey of members conducted in June of this year, as shown below, the majority supported recycling in response to the question “What will be desirable net income when comprehensive income is prominently displayed?”²

A Operating income shows cash flow from business, while comprehensive income shows performance of the period incorporating risks of asset value changes. Net income, which stands between the two indicators, should be the bottom line of realized income for the period before remeasurements. (requires recycling)	53.9%
B Net income should be the bottom line of sustainable performance. Hence, sales gains and losses of strategic equities and pension actuarial differences etc. should not be included. (prohibits recycling)	40.3%
C Other	5.8%

The Board’s proposal to separately display items that will be recycled (reclassified) or not recycled (Paragraph 82A (a)) can only be construed that items not to be recycled will be increased. The CAC agrees with Jan Engstrom’s alternative view that “a thorough conceptual debate should take place to determine what should be presented as other comprehensive income and when and which items presented as other

² A questionnaire was sent to 17,363 members by e-mail. 690 responded, making for a 4.0% response ratio.

comprehensive income should be reclassified to profit or loss” (AV3). The CAC is strongly opposed to incorporating Paragraph 82A(a) in IFRS 1 without such a conceptual debate.

The CAC is deeply concerned that when items not recycled are increased according to the Board’s proposal, the distinction between retained earnings and AOCI will be blurred, resulting in a deterioration in the quality and credibility of financial statements. The CAC respectfully asks the Board to fully recognize that increasing non-recycling items would inevitably mutate the equity section of the balance sheet and to sincerely reconsider why both Japanese and US GAPP adopt a full recycling policy to maintain a clean surplus relationship through the life of a corporation.

Question 5

In the Board’s assessment:

BC32–BC36

(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?

Based upon reasons in its answer to Question 3 above, the CAC does not agree to (a) (iv) above. Assuming full recycling, the CAC proposes clearly disclosing items recycled in the period as shown in the illustration on the next page. This disclosure clarifies what have been recycled and offers valuable information for financial statement users. Indeed, a frequently cited concern about recycling is that it can be used by management to manipulate net income. However, clear disclosure of the items and amount recycled is effective information for estimating management intent with regard to realizing gains and losses.³

The CAC, as a committee of a users organization, is not in a position to exercise proper judgment regarding (b).

³ Disclosure can be made in a note.

Illustration of recycling breakdown:

			20X7	20X6
NET INCOME FOR THE YEAR			<u>121,250</u>	<u>65,500</u>
Profit or loss recycled during the period (after tax)	20X7	20X6		
Sales of stocks held as strategic investment	850	(300)		
Foreign exchange	1,100	250		
Pension actuarial gains and losses	600	(900)		
Total amount recycled	<u>2,550</u>	<u>(950)</u>		

Other comprehensive income, net of tax:

XXXXXXXXX

YYYYYYYYY

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,



Keiko Kitamura

Chair

Corporate Accounting Committee