WHAT'S IN A NAME?

Martin Jones has 'heaps' of good advice for PQs

Sploci. It is a beautiful Icelandic fishing village with chocolate-box houses. I am joking. It is both a wonderful acronym and an admission of defeat. The letters stand for 'Statement of Profit or Loss and Other Comprehensive Income'. It is the new name for the former 'Comprehensive Income Statement'. The former name worked for me. It was punchy and it revealed intent.

The IASB had been endeavouring to wean us off our obsession with profit; an obsession that drives our strategies and dominates our financial reporting. You see the next step from a 'Comprehensive Income Statement' envisaged by the IASB was the 'Performance Statement', communicating the performance as simply the categorised growth in position from one position statement to another. This statement would be unconcerned about measuring a single 'profit' and would present a holistic picture of performance across broad fronts. That was the intent. But no longer. The idea of a 'Performance Statement' appealed to the believers but appalled the markets. "Move away from profit? Not on your life," the markets told the IASB. And the title SPLOCI is the admission of defeat, the white flag waving over the ivory towers of the IASB. "Ok. You can keep profit," say the IASB "and what is more you can call your profit statement 'The Statement of Profit…. or Loss' to reinforce the profit focus."

But what exactly is profit? Everybody knows what it is until they come to define it. Indeed, the chairman of the IASB, Hans Hoorgervorst, asked the question: "Defining profit or loss and OCI... can it be done?" in the title of a recent seminar. I missed it – it was in Japan. But reading between the lines it is clear the answer from the urbane Mr Hoogervorst was "probably not". He noted that the big

Scenic: the lovely Icelandic village of Sploci – possibly

brains at the Accounting Standards Advisory Forum had a bash at defining profit. He described their attempt as a "courageous effort", but noted with a wry smile that there was "very little consensus" on the meaning of profit. He is smooth, our chairman.

But one thing he did say was that most commentators agree that profit is the bottom line of the Statement of Profit or Loss. So profit is no more than the sum of the stuff pumped through the p/l for the year. And most stuff does go through the p/l. But some stuff is not allowed through p/l because it is not "profit" and so has to be pumped through a dumping zone called "Other Comprehensive Income". I use a silly little mnemonic to help me remember the five gains and losses that are banned from p/l and languish in the OCI. It is as follows:

H: Hedging – cash flow hedge gains.
E: Exchange on subs – forex gains on the retranslation of foreign subs.
A: Actuarial – remeasurement gains in pensions.
P: PPE revaluations – gains on occupied properties.
S: Strategic equity – gains on financial assets classified FVOCI.

'Heaps' – get it? The 'heaps' heaps at the bottom of the p/l in a heap. Very funny, Mr Jones. But why are these things driven from the p/l. What did they do wrong? Just about any argument you put forward can be shot down by example. The classic argument is that p/l items are near cash and OCI items are far cash. But that argument is shot down by pointing out that a PPE revaluation gain on a property that you will sell next year goes through OCI and an investment property gain on a property you will keep for a hundred years goes through p/l. Another classic argument is that the p/l items are 'realised' and OCI items are 'unrealised'. But that fails because there is no definition of realised or unrealised. The IASB make some progress by using phrases like 'bridging items', 'mismatched remeasurements' and 'transitory remeasurements' to describe the OCI items. But in the end the IASB rather dolefully admit that this is little more than fancy labelling for stuff we put through the OCI because we do.

The IASB seem to have concluded that the split between p/l and OCI is necessarily arbitrary and are currently suggesting that the following best describes the mangled logic:

- Profit or loss provides the primary source of information about the return an entity has made on its economic resources in a period.
- To support profit or loss, OCI should only be used if it makes profit or loss more relevant.

But this in itself is an admission of defeat as, of course, it must be the IASB that dictate what must go through the OCI in order to make the 'profit or loss more relevant'.

And then there is 'recycling'… don't get me started on recycling. PQ

• Martin Jones lectures at LSBF