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Technical Line

FASB – final guidance

What the new AOCI disclosures will look like

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What you need to know

- The FASB's final guidance requires companies to report, in one place, information about reclassifications out of accumulated other comprehensive income (AOCI). Companies are also required to present reclassifications by component when reporting changes in AOCI balances.
- For significant items reclassified out of AOCI to net income in their entirety during the reporting period, companies must report the effect on the line items in the statement where net income is presented. This can be done on the face of the statement in certain circumstances or in the notes.
- For significant items not reclassified to net income in their entirety during the period, companies must provide cross-references in the notes to other disclosures that already provide information about those amounts.
- Public companies must make the disclosures prospectively in fiscal years and interim periods within those years beginning after 15 December 2012. For calendar-year public companies, that means the first quarter. The FASB set a later effective date for nonpublic companies.

Overview

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2013-02[1] to improve the reporting of reclassifications out of AOCI.

The ASU sets requirements for presentation for significant items reclassified to net income in their entirety during the period and for items not reclassified to net income in their entirety during the period (e.g., pension amounts that are capitalized in inventory).

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It requires companies to present information about reclassifications out of AOCI in one place because the FASB believes it's important for users of the financial statements to have a road map about the effect of reclassifications on the financial statements. It also requires companies to present reclassifications by component when reporting changes in AOCI balances.

The guidance grew out of the FASB's effort to increase the prominence of items reported in other comprehensive income (OCI) with ASU 2011-05.[2] As companies prepared to implement that guidance, they raised concerns about its requirement to present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements. In response, the FASB eliminated the requirement[3] and said it would study the issue further.

The new guidance does not change the requirement to present for annual periods items of net income and other comprehensive income, and totals for net income, OCI and comprehensive income in a single continuous statement or two consecutive statements. It also does not change the requirement to report a total for comprehensive income in a single continuous statement or two consecutive statements in interim periods.

Key considerations

Substantially all of the information required by the ASU is already disclosed elsewhere in the financial statements, as required by other standards. For example, Accounting Standards Codification (ASC) 320, *Investments — Debt and Equity Securities*,[4] requires disclosure of the amount of net unrealized gains or losses on available-for-sale securities that is included in AOCI in the period and the amount reclassified out of AOCI into earnings in the period. Because of the ASU's requirement for all of the information about reclassifications out of AOCI to be in one place, it will result in duplication of certain information.

The ASU amends ASC 220, *Comprehensive Income*. The guidance applies to all companies with items of OCI except not-for-profit companies that follow ASC 958-205, *Not-for-Profit Entities — Presentation of Financial Statements*.

Reporting changes in AOCI balances

The ASU requires companies to present more details about the changes in accumulated balances of each component of OCI included in equity (i.e., change in AOCI).

Companies have been required to present total changes in AOCI by component on the face of the financial statements or in the notes. Companies that present the information on the face of the financial statements do so in the statement of stockholders' equity.

The ASU requires companies to present current-period reclassifications out of AOCI and other amounts of current-period OCI separately for each component of OCI on the face of the financial statements or in the notes. Companies can choose to present this information before tax or after tax, as long as they comply with the existing tax disclosure requirements in ASC 220. Companies that choose to present the information on the face of the financial statements will likely do so after tax, consistently with the statement of stockholders' equity.

This illustration shows how changes in OCI balances can be reported after tax in the notes to the financial statements.

Illustration 1 — Disclosure about changes in AOCI balances after tax

This illustration assumes a 35% tax rate.

Company ABC
Notes to the Financial Statements
Changes in Accumulated Other Comprehensive Income by Component[1]
Year Ended 31 December 2012

	Foreign currency	Unrealized holding gains on available-for-sale securities	Defined benefit pension plans	Total
Beginning balance	$ 8,000	$ 219,000	$ (57,000)	$ 170,000
Other comprehensive income before reclassifications	65,000	292,500	(260,000)	97,500
Amounts reclassified from accumulated other comprehensive income	-	(81,250)	32,500	(48,750)
Net current-period other comprehensive income	65,000	211,250	(227,500)	48,750
Ending balance	$ 73,000	$ 430,250	$ (284,500)	$ 218,750

[1] All amounts are after tax. Amounts in parentheses indicate debits.

Companies are required to report reclassification adjustments out of AOCI in one place, either on the face of the financial statements or in the notes.

How we see it

To reduce clutter on the statement of stockholders' equity, companies with several components of AOCI will likely choose to present changes in AOCI balances in the notes.

Reporting reclassification adjustments out of AOCI

The ASU requires companies to report information about significant amounts reclassified out of AOCI to net income in one place.

Presentation on the face

The ASU allows companies to present information about items reclassified out of AOCI either on the face of the financial statements or in the notes. If an entity is unable to identify the line item of net income affected by any significant amount reclassified out of AOCI during a reporting period (including when all reclassifications for the period are not to net income in their entirety), a company must present information about items reclassified out of AOCI in the notes.

Companies that qualify for and present information about significant items reclassified out of AOCI on the face of the statement where net income is presented must present parenthetically:

- The effect (i.e., amount) of significant reclassification items on the respective line items of net income by component of OCI
- The aggregate tax effect of all significant reclassifications on the line item for income tax benefit/expense in the statement where net income is presented

The following illustration shows the presentation of reclassification adjustments out of AOCI on the face of the statement where net income is presented.

Illustration 2 — Reporting reclassification adjustments on the face of the statement where net income is presented

This example assumes Company ABC presents components of OCI and net income, and a total for net income, OCI and comprehensive income in two separate but consecutive statements of net income and comprehensive income. Similar presentation would be required if the company presented the information in one continuous statement of comprehensive income. This example assumes that all of Company ABC's AOCI items relate to available-for-sale securities. This example also assumes a 35% tax rate and total reclassifications of $125,000 related to available-for-sale securities of which ($1,000) has been deemed insignificant.

ABC Company
Consolidated Statement of Income
Year Ended 31 December 2012

Revenues	$ 4,145,000
Expenses	(2,505,000)
Other gains and losses	5,000
Gain on sales of securities (includes $126,000 accumulated other comprehensive income reclassifications for unrealized gains on available-for-sale securities)	675,000
Income from operations, before tax	2,320,000
Income tax expense (includes ($44,100) income tax expense from reclassification items)	(812,000)
Net income	$ 1,508,000
Earnings per share basic and diluted	$0.51

Companies that qualify for and choose to present reclassifications out of AOCI to net income in their entirety on the face of the financial statements will still have to comply with the existing income tax disclosure requirements in ASC 220.[5]

How we see it

The parenthetic presentation of items reclassified out of AOCI on the face of the statement where net income is presented may clutter the statement. Before choosing a presentation, companies that qualify for either presentation should consider the number of items of AOCI and the number of line items in the statement where net income is presented that are affected by the reclassifications. In addition, they should consider the likelihood of items arising in the future that are not reclassified to net income in their entirety.

Presentation in the notes

If an entity chooses or is required to report significant items reclassified out of AOCI by component in the notes, it must present the significant amounts by component of OCI and provide a subtotal for each component. The subtotal for each component must agree with the amounts reported for reclassification in the changes in AOCI balances disclosure. Companies can choose before-tax or after-tax presentation, as long as they comply with the income tax disclosure requirements in ASC 220.[5]

For each significant reclassification to net income in its entirety during the reporting period, companies must identify the line item(s) affected in the statement where net income is presented. For any significant reclassifications that are not reclassified directly to net income in their entirety during the reporting period, companies must cross-reference the note where additional details about the effects of the reclassification are disclosed.

The following illustration shows a tabular disclosure about reclassification adjustments out of AOCI in the notes to the financial statements.

Illustration 3 – Reporting reclassification adjustments in the notes

Company ABC
Notes to the Financial Statements
Reclassifications out of accumulated other comprehensive income[1]
Year Ended 31 December 2012

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
Unrealized gains and losses on available-for-sale securities		
	$ 126,000	Realized gain on sale of securities
Insignificant items	(1,000)	
	125,000	Total before tax
	(43,750)	Tax expense
	$ 81,250	Net of tax[3]
Amortization of defined benefit pension items		
Prior service costs	$ (10,000)	[2]
Transition obligation	(25,000)	[2]
Actuarial (losses)	(15,000)	[2]
	(50,000)	Total before tax
	17,500	Tax benefit
	$ (32,500)	Net of tax[3]

[1] Amounts in parentheses indicate debits in profit/loss.

[2] These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note X – Pensions for additional details.)

[3] Amount agrees with amount reported as reclassifications from AOCI in the disclosure about changes in AOCI balances in Illustration 1.

The ASU does not specifically address how its requirements affect a company that has noncontrolling interests.

If in the above example, Company ABC reclassified the amortization of defined benefit pension items in their entirety to net income during the period and could identify the line item(s) affected by the reclassifications in the statement where net income is presented, Company ABC would be required to identify the line item(s) affected by the reclassification in the statement where net income is presented.

Noncontrolling interests

The ASU does not specifically address how its requirements affect a company that has noncontrolling interests. We would expect that companies with noncontrolling interests would present the changes in AOCI balances after tax and after noncontrolling interest, as is generally done to comply with other requirements. Further, if reclassification adjustments out of AOCI are disclosed in the notes to the financial statements, additional reconciliation information may be necessary. This is because the ASU[6] requires the subtotal for each component in the disclosure about

reclassification adjustments out of AOCI to agree with the amounts presented for reclassifications in the changes in AOCI balances disclosure. The ASU does not include a similar requirement for the amounts presented for reclassifications out of AOCI on the face of the financial statements.[7]

Changes in AOCI balances

Because AOCI balances for companies with noncontrolling interests are presented after tax and after the noncontrolling interests,[8] companies generally present the amounts for the changes in AOCI balances after tax and after noncontrolling interests. Under the ASU, they would separately report the reclassifications out of AOCI in the changes in AOCI balances by component.

The following illustration updates the disclosure in the first illustration to reflect a new assumption that ABC Company has a corporate subsidiary with a 20% noncontrolling interest.

Illustration 4 — Noncontrolling interest — Disclosure about changes in AOCI balances after tax

This illustration assumes a company has a 20% noncontrolling interest in a subsidiary of ABC Company and that all items of AOCI relate to that subsidiary.

Company ABC
Notes to the Financial Statements
Changes in Accumulated Other Comprehensive Income by Component[1]
Year Ended 31 December 2012

	Foreign currency	Unrealized holding gains on available-for-sale securities	Defined benefit pension plans	Total
Beginning balance	$ 6,400	$ 175,200	$ (45,600)	$ 136,000
Other comprehensive income before reclassifications	52,000	234,000	(208,000)	78,000
Amounts reclassified from accumulated other comprehensive income	-	(65,000)	26,000	(39,000)
Net current-period other comprehensive income	52,000	169,000	(182,000)	39,000
Ending balance	$ 58,400	$ 344,200	$ (227,600)	$ 175,000

[1] All amounts are net of tax and noncontrolling interest. Amounts in parentheses indicate debits.

Reclassification adjustments out of AOCI presented in the notes

The ASU does not provide specific guidance on disclosure about reclassification adjustments out of AOCI for companies with a noncontrolling interest. For companies to meet the requirement that the subtotals in the disclosure about reclassification adjustments out of AOCI agree with the amounts reported for changes in AOCI balances and that those amounts agree with the financial statements, a company with a noncontrolling interest may need to provide additional reconciliation information about the effect of the reclassification adjustment out of AOCI related to the noncontrolling interest.

Using the facts in Illustration 3, the following illustration shows how the disclosure about reclassification adjustments out of AOCI might be presented so that amounts reclassified out of AOCI agree with the amounts reported as reclassifications out of AOCI in Illustration 4.

Illustration 5 — Noncontrolling interest — Reporting reclassification adjustments in the notes

This illustration assumes a company had a 20% noncontrolling interest in a subsidiary of ABC Company and that all items of AOCI relate to that subsidiary.

Company ABC
Notes to the Financial Statements
Reclassifications out of accumulated other comprehensive income[1]
Year Ended 31 December 2012

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the statement where net income is presented
Unrealized gains and losses on available-for-sale securities		
	$ 126,000	Realized gain on sale of securities
Insignificant items	(1,000)	
	125,000	Total before tax
	(43,750)	Tax expense
	81,250	Net of tax
	(16,250)	Noncontrolling interest
	$ 65,000	Net of tax and noncontrolling interest[3]
Amortization of defined benefit pension items		
Prior service costs	$ (10,000)	[2]
Transition obligation	(25,000)	[2]
Actuarial (losses)	(15,000)	[2]
	(50,000)	Total before tax
	17,500	Tax benefit
	(32,500)	Net of tax
	6,500	Noncontrolling interest
	$ (26,000)	Net of tax and noncontrolling interest[3]

1 Amounts in parentheses indicate debits to profit/loss.

2 These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note X — Pensions for additional details.)

3 Amount agrees with amount reported as reclassifications from AOCI in the disclosure about changes in AOCI balances in Illustration 4.

The ASU does not require that amounts presented for reclassifications out of AOCI on the face of the financial statements agree with amounts reported for changes in AOCI balances,[7] although providing such a reconciliation in the notes may be helpful.

Interim reporting

While the ASU does not change the interim requirement to present a total for comprehensive income in either a single continuous statement or two consecutive statements, it adds other interim requirements. Specifically, it indicates that the requirements in ASC 220 should be followed for reporting in interim periods while also indicating that ASC 270, *Interim Reporting*, clarifies the application of accounting principles and reporting practices in interim financial statements. The ASU amends ASC 270 to note that public companies must report, at a minimum, specific information about changes in AOCI balances and about items reclassified out of AOCI. Nonpublic companies are required to report only changes in AOCI balances during interim periods.

Income taxes

Under ASC 220, companies have been required to disclose the amount of income tax expense or benefit allocated to each component of OCI, including reclassification adjustments, either on the face of the related financial statement or in the notes to the financial statements.

The ASU also expands interim reporting requirements.

Further, the intraperiod tax allocation guidance for accounting for the income tax effects in other comprehensive income remains unchanged. Changes in judgment about the need for a valuation allowance or changes in tax rates may result in the accounting for the tax effect through continuing operations of items that are otherwise included in OCI. As a result, dangling debits or credits may exist in OCI. A company's policy to address these dangling debits or credits should not be changed as a result of the ASU. See Section 15, *Intraperiod tax allocation*, of our Financial Reporting Developments publication, *Income taxes*, for additional discussion of intraperiod allocation and the prohibition against backward tracing of the income tax effect of certain transactions.

Effective date and transition

For public companies, the ASU is effective for fiscal years and interim periods within those years beginning after 15 December 2012, or the first quarter of 2013 for calendar-year companies. For nonpublic companies, the ASU is effective for fiscal years beginning after 15 December 2013 and interim and annual periods thereafter. The ASU should be applied prospectively. Early adoption is permitted.

Next steps

Companies need to determine an approach to reporting changes in AOCI balances and reclassifications out of AOCI, particularly calendar year-end public companies that need to make the disclosures for the first quarter of 2013.

Endnotes:

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1 ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*.

2 ASU 2011-05, *Presentation of Comprehensive Income*.

3 ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*.

4 ASC 320-10-50-9(d).

5 ASC 220-10-45-12 requires companies to disclose the income tax effect allocated to each component of OCI, including reclassification adjustments. (See income tax section for further discussion.)

6 ASC 220-10-45-17B requires the subtotals for each component to agree with the requirements in ASC 220-10-45-12.

7 ASC 220 is silent on whether amounts presented about reclassifications out of AOCI on the face of the financial statements are required to agree with amounts presented for reclassifications out of AOCI in the disclosure about changes in AOCI balances.

8 ASC 810-10-50-1A requires companies to reconcile the carrying amount of total equity (net assets), equity (net assets) attributable to the parent and equity (net assets) attributable to the noncontrolling interest in a subsidiary that is less than wholly owned at the beginning and end of the period either in the statement of shareholders' equity or in the notes to the financial statements. That reconciliation should include each component of OCI that is also attributed to either the parent or noncontrolling interest. As a result, AOCI items are only attributable to the parent because amounts of OCI attributable to the noncontrolling interests are reported separately.

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Appendix: Items required to be reported as OCI

Guidance that requires items to be recorded in OCI includes:

ASC 320-10, *Investments — Debt and Equity Securities*

- Unrealized holding gains and losses on available-for-sale securities
- Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category
- Amounts recognized in OCI for debt securities classified as available-for-sale and held-to-maturity related to an other-than-temporary impairment recognized in accordance with Section 370-10-35 if a portion of the impairment was not recognized in earnings
- Subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of available-for-sale securities previously written down as impaired

ASC 830, *Foreign Currency Matters*

- Foreign currency translation adjustments
- Foreign exchange gains and losses from intra-entity foreign currency transactions of a long-term investment nature, when the companies that are a party to the transaction are consolidated, combined or accounted for by the equity method in the reporting entity's financial statements
- Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, beginning as of the designation date

ASC 715, *Compensation — Retirement Benefits*

- Gains or losses associated with pension/other postretirement benefits that are not recognized immediately as a component of net periodic benefit cost
- Prior service costs or credits associated with pension/other postretirement benefits
- Transition assets or obligations associated with pension/other postretirement benefits that are not recognized immediately as a component of net periodic benefit cost

ASC 815, *Derivatives and Hedging*

- Gains and losses (effective portion) on derivatives that are designated as and qualify as cash flow hedges