

To the Point

FASB – proposed guidance

FASB proposes more AOCI reclassification disclosures

The Board believes that the proposed disclosures would benefit users of financial statements without imposing significant costs on preparers.

What you need to know

- ▶ The FASB proposed requiring companies to provide new tabular disclosures about items reclassified out of AOCI.
- ▶ The proposal would increase disclosures about changes in the balances of AOCI components and require new interim reporting disclosures.
- ▶ The FASB has discussed and is seeking input on the possibility of making the proposal effective for public companies for annual reporting periods ending after 15 December 2012 and one year later for nonpublic companies.
- ▶ Comments are due by 15 October 2012.

Overview

The Financial Accounting Standards Board (FASB or Board) proposed¹ requiring companies to provide tabular disclosures about items that are required by US GAAP to be reclassified out of accumulated other comprehensive income (AOCI) to net income in their entirety.

The table would include the amount of the reclassification and identify the line item affected by the reclassification on the statement where net income is presented. For other AOCI reclassification items not required by US GAAP to be reclassified directly to net income in their entirety (e.g., pension-related items that are capitalized in inventory), the table would list cross-references to other disclosures where additional details about their effects are disclosed. In addition, the proposal would increase disclosures about changes in the balances of AOCI components and add interim reporting disclosures.

Background

The FASB issued Accounting Standards Update (ASU) 2011-05² in June 2011 to increase the prominence of items reported in other comprehensive income (OCI). As companies prepared to implement the ASU, they raised concerns about the requirement to present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements.

Companies cited challenges in identifying and summarizing reclassification adjustments such as pension-related items that they capitalized on the balance sheet before recognizing in net income. Companies also said their financial statements would become too cluttered if they had to significantly increase the number of line items they display in arriving at net income.

In response to preparer concerns, the FASB removed³ the requirement that companies present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements.

Key considerations

Tabular disclosure about items reclassified out of AOCI

The proposal would require companies to provide tabular disclosures about items that are required by US GAAP to be reclassified out of AOCI to net income in their entirety.

The table would show the amount and the line item affected by the reclassification on the statement where net income is presented. For example, Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*, requires that when an available-for-sale security is sold, the amount recorded in OCI, representing the unrealized gain or loss at the date of sale, is reversed into net income. That amount and line item affected would be included in the table. Some companies do not present a separate line item for realized gains/(losses) on the sale of securities and instead include them as a part of another line item (e.g., other income/(expense)). Regardless of presentation, a company would be required to list in the tabular disclosure the line item affected on the statement where net income is presented.

For other reclassification items not required by US GAAP to be reclassified directly to net income in their entirety, the table would include cross-references to other disclosures where additional details about the effect of the reclassifications are disclosed. For example, ASC 715, *Compensation – Retirement Benefits*, does not require a company to reclassify the amortization of defined benefit pension cost components from AOCI directly to net income (e.g., a portion of the cost may be capitalized in inventory). Therefore, a company with defined benefit pension costs reclassified out of AOCI should identify the amount of each pension cost component (e.g., prior service cost, transition obligation) reclassified out of AOCI and refer to the relevant pension cost disclosures that provide greater detail about these reclassifications.

In either case, the table would require presentation of “significant” items reclassified out of each component of AOCI and a subtotal for “significant” items. The total for each component of the table should agree with the disclosure of changes in the balances of AOCI⁴ components.

Illustration 1 – Disclosure about items reclassified out of AOCI

Company ABC Notes to the Financial Statements Reclassifications out of accumulated other comprehensive income¹ Year ended 31 December 201X		
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/(losses) on available-for-sale securities	\$ 500,000 (75,000) 425,000 (148,750) <u>\$ 276,250</u>	Realized gain on sale of securities Impairment expense Total before tax Tax expense Net of tax
Amortization of defined benefit pension items		
Prior service costs	\$ (30,000) ²	
Transition obligation	(25,000) ²	
Actuarial gains/(losses)	(20,000) ²	
	(75,000)	Total before tax
	26,250	Tax benefit
	<u>\$ (48,750)</u>	Net of tax

¹ Amounts in parentheses indicate debits.
² These AOCI components are included in net periodic pension cost. (See Note X for additional details.)

The disclosure of the effect of reclassifications on the line items in the statement in which net income is presented should be presented on a before-tax or after-tax basis consistent with the company's method of presentation for the line items in the statement where net income is presented.

Disclosures about changes in the balances of AOCI components

The proposal would require more information to be presented about the changes in accumulated component balances in AOCI.

Currently, companies must present changes in AOCI by component in the statement of stockholders' equity or in the notes to the financial statements. The proposal would require that a company also present separately for each component of OCI current period reclassifications and the remainder of the current period OCI so the reader can view the activity in the component of AOCI that reconciles the beginning balance to the ending balance.

Illustration 2 – Disclosure about changes in the balances of AOCI components

Company ABC Notes to the Financial Statements Changes in accumulated other comprehensive income by component¹ Year ended 31 December 201X			
	Unrealized gains/(losses) on available-for-sale securities	Defined benefit pension items	Total
Beginning balance	\$ 100,000	\$ (57,000)	\$ 43,000
Other comprehensive income before reclassifications	471,250	(260,000)	211,250
Amounts reclassified from accumulated other comprehensive income ²	(276,250)	48,750	(227,500)
Net current period other comprehensive income	195,000	(211,250)	(16,250)
Ending balance	\$ 295,000	\$ (268,250)	\$ 26,750

¹ All amounts are net of tax. Amounts in parentheses indicate debits.

² See "Reclassifications out of accumulated other comprehensive income" disclosure for details.

Interim reporting disclosures

Currently, companies are required to report a total for comprehensive income in interim periods in a single continuous statement or two consecutive statements. The proposal would require tabular disclosure about items reclassified out of AOCI and disclosure about changes in the balances of AOCI components.

Effective date

The FASB won't determine the effective date until after it considers feedback on the proposal, but it discussed the possibility of making the amendments effective for public companies for annual reporting periods ending after 15 December 2012 and for interim and annual periods thereafter. For nonpublic companies, the Board discussed delaying the effective date by one year.

Endnotes:

¹ Proposed Accounting Standards Update, *Presentation of Items 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 220-10-45-14A requires companies to present on the face of the financial statements or as a separate disclosure in the notes the changes in accumulated balances for each component of OCI.

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