

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2013-02
February 2013

Comprehensive Income (Topic 220)

Reporting of Amounts Reclassified Out of Accumulated
Other Comprehensive Income

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods. Nonpublic entities are required to comply with all the requirements of the amendments for annual reporting periods. For interim reporting periods, nonpublic entities are not required to report the effects of reclassifications on net income but are required to report information about the amounts reclassified out of accumulated other comprehensive income by component for each reporting period. Not-for-profit entities that report under the requirements of Subtopic 958-205, Not-for-Profit Entities—Presentation of Financial Statements, are excluded from the scope of these amendments.

What Are the Main Provisions?

The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified

out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Substantially all of the information that this Update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. However, the new requirement about presenting information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income will present, in one place, information about significant amounts reclassified and, in some cases, cross-references to related footnote disclosures. Currently, this information is presented in different places throughout the financial statements.

When Will the Amendments Be Effective?

For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Under IFRS, entities report fewer amounts in other comprehensive income, and they are not required to subsequently reclassify all amounts of accumulated other comprehensive income to net income (profit or loss). Under IAS 1, *Presentation of Financial Statements*, entities must present reclassifications by component of other comprehensive income, either in the statement(s) containing profit or loss and other comprehensive income or in the notes to the financial statements. The disclosure requirements under IFRS, however, do not include the specific presentation requirements in this Update.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 220-10

2. Amend paragraphs 220-10-45-14A and 220-10-45-17 and add paragraphs 220-10-45-17A through 45-17B and 220-10-45-18A through 45-18B, with a link to transition paragraph 220-10-65-3, as follows:

Comprehensive Income—Overall

Other Presentation Matters

> Presentation of Income Tax Effects

220-10-45-12 An entity shall present the amount of income tax expense or benefit allocated to each component of other comprehensive income, including **reclassification adjustments**, in the statement in which those components are presented or disclose it in the notes to the financial statements. Example 1 (see paragraphs 220-10-55-7 through 55-8B) illustrates the alternative formats for disclosing the tax effects related to the components of other comprehensive income.

> Reporting Accumulated Other Comprehensive Income

220-10-45-14 The total of other comprehensive income for a period shall be transferred to a component of equity that is presented separately from retained earnings and additional paid-in capital in a statement of financial position at the end of an accounting period. A descriptive title such as accumulated other comprehensive income shall be used for that component of equity.

220-10-45-14A An entity shall present, either on the face of the financial statements or as a separate disclosure in the notes, the changes in the

accumulated balances for each component of other comprehensive income included in that separate component of equity, as required in paragraph 220-10-45-14. In addition to the presentation of changes in accumulated balances, an entity shall present separately for each component of other comprehensive income, current period reclassifications out of accumulated other comprehensive income and other amounts of current-period other comprehensive income. Both before-tax and net-of-tax presentations are permitted provided the entity complies with the requirements in paragraph 220-10-45-12, correspond to the components of other comprehensive income in the statement in which other comprehensive income for the period is presented. Paragraph 220-10-55-15 illustrates the disclosure of changes in accumulated balances for components of other comprehensive income as a separate disclosure in the notes to financial statements.

> Reclassification Adjustments

~~220-10-45-17 An entity may present reclassification adjustments out of accumulated other comprehensive income on the face of the statement in which the components of other comprehensive income are presented, or it may disclose those reclassification adjustments in the notes to the financial statements. Therefore, for all classifications of other comprehensive income, an entity may use either a gross display on the face of the financial statement or a net display on the face of the financial statement and disclose the gross change in the notes to the financial statements. If displayed gross, reclassification adjustments are reported separately from other changes in the respective balance; thus, the total change is reported as two amounts. If displayed net, reclassification adjustments are combined with other changes in the other comprehensive income item balance; thus, the total change is reported as a single amount. Gross and net displays are illustrated in Example 1 (see paragraph 220 10 55 4). Cases A and B (see paragraphs 220 10 55 21 through 55 26) illustrate the calculation of reclassification adjustments for **available-for-sale equity and debt securities**. An entity shall separately provide information about the effects on net income of significant amounts reclassified out of each component of accumulated other comprehensive income if those amounts all are required under other Topics to be reclassified to net income in their entirety in the same reporting period. An entity shall provide this information together, in one location, in either of the following ways:~~

- a. On the face of the statement where net income is presented
- b. As a separate disclosure in the notes to the financial statements.

The following paragraph describes the information requirements for presentation on the face of the statements where net income is presented, and paragraph 220-10-45-17B describes the information requirements for disclosure in the notes to the financial statements.

220-10-45-17A If an entity chooses to present information about the effects of significant amounts reclassified out of accumulated other comprehensive income on net income, on the face of the statement where net income is presented, the entity shall present parenthetically by component of other comprehensive income the effect of significant reclassification amounts on the respective line items of net income. An entity also shall present parenthetically the aggregate tax effect of all significant reclassifications on the line item for income tax benefit or expense in the statement where net income is presented. If an entity is unable to identify the line item of net income affected by any significant amount reclassified out of accumulated other comprehensive income in a reporting period (including when all reclassifications for the period are not to net income in their entirety), the entity must follow the guidance in the following paragraph. Paragraph 220-10-55-17F provides an example of presentation of the effect of reclassification on the face of the statement where net income is presented.

220-10-45-17B If an entity chooses to present information about significant amounts reclassified out of accumulated other comprehensive income in the notes to the financial statements or is required to do so by the preceding paragraph, it shall present the significant amounts by each component of accumulated other comprehensive income and provide a subtotal of each component of comprehensive income. The subtotals for each component shall agree with the requirements in paragraph 220-10-45-14A. Both before-tax and net-of-tax presentations are permitted provided the entity complies with the requirements in paragraph 220-10-45-12. For each significant reclassification amount, the entity shall identify, for those amounts that are required under other Topics to be reclassified to net income in their entirety in the same reporting period, each line item affected by the reclassification on the statement where net income is presented. For any significant reclassification for which other Topics do not require that reclassification to net income in its entirety in the same reporting period, the entity shall cross-reference to the note where additional details about the effect of the reclassifications are disclosed. Paragraph 220-10-55-17E provides an example of a note presentation in a tabular format of the effect of reclassifications out of accumulated other comprehensive income.

> Interim-Period Reporting

220-10-45-18 Subtopic 270-10 clarifies the application of accounting principles and reporting practices to interim financial information, including interim financial statements and summarized interim financial data of publicly traded companies issued for external reporting purposes. An entity shall report a total for comprehensive income in condensed financial statements of interim periods in a single continuous statement or in two consecutive statements.

220-10-45-18A {add glossary link to 1st definition}Publicly traded companies{add glossary link to 1st definition} must meet the reporting

requirements in this Subtopic at each reporting period. Companies shall follow the guidance in Subtopic 270-10 for the level of detail required for condensed financial statements for interim-period financial statements.

220-10-45-18B {add glossary link to 1st definition}Nonpublic entities{add glossary link to 1st definition} must meet the reporting requirements in this Subtopic at each reporting period, except for the requirements in paragraphs 220-10-45-17 through 45-17B. Nonpublic entities are not required to meet the requirements in paragraphs 220-10-45-17 through 45-17B for interim reporting periods but are required to meet them for annual reporting periods.

3. Amend paragraph 220-10-55-15 and add paragraphs 220-10-55-15A through 55-15C and 220-10-55-17A through 55-17F and their related heading, with a link to transition paragraph 220-10-65-3, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

220-10-55-1 This Section provides Examples of reporting formats for **comprehensive income**, required disclosures, and a corresponding statement of financial position. The illustrations are intended as examples only. Other formats or levels of detail may be appropriate for certain circumstances. An entity is encouraged to provide information in ways that are most understandable to investors, lenders, and other external users of financial statements. For simplicity, the Examples provide information only for a single period; however, most entities are required to provide comparative financial statements. In addition to the Examples in this Section, paragraph 810-10-55-4C illustrates one method for reporting comprehensive income if the entity has one or more less-than-wholly-owned subsidiaries.

> Illustrations

> > Example 2: Presenting Accumulated Other Comprehensive Income

> > > Disclosure of Changes in Accumulated Other Comprehensive Income Balances

220-10-55-15 ~~The following table illustrates the disclosure disclosures in the notes to financial statements for the year ended December 31, 201X, of changes in the balances of each component of accumulated other comprehensive income, as required bydiscussed in paragraph 220-10-45-14A. The amounts in this illustration correspond to the amounts in the Example in paragraph 220-10-55-17E and demonstrate the relationship between the requirements in paragraph 220-10-45-14A and the requirements in paragraph 220-10-45-17B for this entity.~~

Entity XYZ
Notes to Financial Statements
Year Ended December 31, 201X

	Foreign Currency Items	Unrealized Gains on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
Beginning balance	\$ (400)	\$ 20,400	\$ (1,600)	\$ 18,400
Current period other comprehensive income	6,400	9,200	(2,000)	13,600
Ending balance	<u>\$ 6,000</u>	<u>\$ 29,600</u>	<u>\$ (3,600)</u>	<u>\$ 32,000</u>

[For ease of readability, this table is not underlined as new text.]

Entity XYZ
Notes to Financial Statements
Changes in Accumulated Other Comprehensive Income by Component ^(a)
For the Period Ended December 31, 201X

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for- Sale Securities	Defined Benefit Pension Items	Foreign Currency Items	Total
Beginning balance	\$ (1,200)	\$ 1,000	\$ (8,800)	\$ 1,300	\$ (7,700)
Other comprehensive income before reclassifications	3,000	2,500	(3,000)	1,000	3,500
Amounts reclassified from accumulated other comprehensive income	(750)	(1,500)	4,500	-	2,250
Net current-period other comprehensive income	2,250	1,000	1,500	1,000	5,750
Ending balance	<u>\$ 1,050</u>	<u>\$ 2,000</u>	<u>\$ (7,300)</u>	<u>\$ 2,300</u>	<u>\$ (1,950)</u>

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

220-10-55-15A The following table illustrates the disclosure of changes in the balances of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-14A. The amounts in this illustration correspond to the amounts in the Example in paragraph 220-10-55-17F.

[For ease of readability, this table is not underlined as new text.]

Entity ABC
Notes to Financial Statements
Changes in Accumulated Other Comprehensive Income by Component ^(a)
For the Period Ended December 31, 201X

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for- Sale Securities	Total
Beginning balance	\$ (5,000)	\$ 8,000	\$ 3,000
Other comprehensive income before reclassifications	7,000	8,000	15,000
Amounts reclassified from accumulated other comprehensive income	(2,250)	(3,000)	(5,250)
Net current-period other comprehensive income	4,750	5,000	9,750
Ending balance	\$ (250)	\$ 13,000	\$ 12,750

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

220-10-55-15B The presentation of unrealized gains and losses on available-for-sale securities illustrated in paragraphs 220-10-55-15 through 55-15A is aggregated for simplicity and, therefore, does not necessarily comply with all of the disclosures that may be required in Topic 320 (for example, disclosures about other-than-temporary-impairments in paragraph 320-10-45-9A).

220-10-55-15C For life insurers, amounts reclassified out of accumulated other comprehensive income exclude changes in unrealized gains and losses on available-for-sale securities associated with direct adjustments made to deferred acquisition costs, certain intangible assets, and policy liabilities necessary to reflect these balances as if such unrealized gains and losses were realized.

> > > Disclosure of Amounts Reclassified Out of Accumulated Other Comprehensive Income

220-10-55-17A The effect of reclassifications on the line items in the statement in which net income is presented, as described in paragraph 220-10-45-17, should be presented on either a before-tax basis or a net-of-tax basis consistent with the entity's method of presentation for the line items in the statement where net income is presented. In either case, the total for this disclosure should agree with

the total amount of reclassifications for each component of comprehensive income that complies with the presentation requirements in paragraph 220-10-45-14A. The illustration in paragraph 220-10-55-17E presents the effect of reclassifications on the line items of net income on a before-tax basis, but it also shows totals for each component, which agree with the ending balances presented in paragraph 220-10-55-15, which is on an after-tax basis.

220-10-55-17B Topic 715 does not require an entity to reclassify the amortization of defined benefit pension and other employee benefit cost components from accumulated other comprehensive income directly to net income in their entirety. Rather, it requires an entity to reclassify those amortized costs in their entirety to net periodic pension cost. Some portion of net periodic pension cost is immediately reported in net income, but other portions may be capitalized to an asset balance such as fixed assets or inventory. An entity with significant defined benefit pension costs reclassified out of accumulated other comprehensive income but not to net income in its entirety in the same reporting period should identify the amount of each pension cost component reclassified out of accumulated other comprehensive income and make reference to the relevant pension cost disclosure that provides greater detail about these reclassifications.

220-10-55-17C A life insurer may make adjustments to unrealized gains and losses on available-for-sale securities for the effect on relevant assets and liabilities (as specified in paragraph 320-10-S99-2 for public entities) as if the unrealized gains and losses had been realized. In such cases, the life insurer should cross-reference to the related notes.

220-10-55-17D Some entities may not have a separate line item for realized gains/(losses) on the sale of securities and, instead, will include this amount as part of another line item, for example, other income/(expense).

220-10-55-17E The following illustrates a disclosure in a tabular format of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17B. The amounts used in this Example correspond to those in the Example in paragraph 220-10-55-15.

[For ease of readability, this table is not underlined as new text.]

Entity XYZ Notes to Financial Statements Reclassifications Out of Accumulated Other Comprehensive Income ^(a) For the Period Ended December 31, 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
Gains and losses on cash flow hedges		
Interest rate contracts	\$ 1,000	Interest income/(expense)
Credit derivatives	(500)	Other income/(expense)
Foreign exchange contracts	2,500	Sales/revenue
Commodity contracts	(2,000)	Cost of sales
	1,000	Total before tax
	(250)	Tax (expense) or benefit
	<u>\$ 750</u>	Net of tax
Unrealized gains and losses on available-for-sale securities		
	\$ 2,300	Realized gain/(loss) on sale of securities
	(285)	Impairment expense
Insignificant items	(15)	
	2,000	Total before tax
	(500)	Tax (expense) or benefit
	<u>\$ 1,500</u>	Net of tax
Amortization of defined benefit pension items		
Prior-service costs	\$ (2,000) ^(b)	
Transition obligation	(2,500) ^(b)	
Actuarial gains/(losses)	(1,500) ^(b)	
	(6,000)	Total before tax
	1,500	Tax (expense) or benefit
	<u>\$ (4,500)</u>	Net of tax
Total reclassifications for the period	<u>\$ (2,250)</u>	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see pension footnote for additional details).

220-10-55-17F The following illustrates presentation of the effect on certain line items of net income of significant amounts reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17A. The amounts in this Example agree with the amounts in the Example in paragraph 220-10-55-15A. This presentation should only be used if all significant reclassifications out of accumulated other comprehensive income are reclassified to net income in their entirety in the same reporting period.

[For ease of readability, this illustration is not underlined as new text.]

Entity ABC
Statement of Income
For the Period Ended December 31, 201X

Revenues (includes \$4,000 accumulated other comprehensive income reclassifications for net gains on cash flow hedges)	\$ 122,500
Expenses (includes (\$1,000) accumulated other comprehensive income reclassifications for net losses on cash flow hedges)	(32,000)
Other gains and losses	5,000
Gain on sale of securities (includes \$4,000 accumulated other comprehensive income reclassifications for unrealized net gains on available-for-sale securities)	<u>4,000</u>
Income from operations before tax	99,500
Income tax expense (includes (\$1,750) income tax expense from reclassification items)	<u>(24,875)</u>
Net income	<u>\$ 74,625</u>

4. Add paragraph 220-10-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

220-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*:

- a. The pending content that links to this paragraph shall be applied prospectively and is effective as follows:
 - 1. For public entities, for fiscal years, and interim periods within those years, beginning after December 15, 2012.
 - 2. For {add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}, for fiscal years beginning after December 15, 2013, and interim and annual periods thereafter.
- b. Early adoption of the pending content that links to this paragraph is permitted.

5. Amend paragraph 270-10-50-1 by adding item r, with a link to transition paragraph 220-10-65-3, as follows:

Interim Reporting—Overall

Disclosure

> Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

270-10-50-1 Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP]). If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

- r. The information about changes in accumulated other comprehensive income required by paragraphs 220-10-45-14A and 220-10-45-17 through 45-17B.

6. Amend paragraph 220-10-00-1, by adding the following items to the table, as follows:

220-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
220-10-45-14A	Amended	2013-02	2/05/2013
220-10-45-17	Amended	2013-02	2/05/2013
220-10-45-17A	Added	2013-02	2/05/2013
220-10-45-17B	Added	2013-02	2/05/2013
220-10-45-18A	Added	2013-02	2/05/2013
220-10-45-18B	Added	2013-02	2/05/2013
220-10-55-15	Amended	2013-02	2/05/2013

Paragraph Number	Action	Accounting Standards Update	Date
220-10-55-15A through 55-15C	Added	2013-02	2/05/2013
220-10-55-17A through 55-17F	Added	2013-02	2/05/2013
220-10-65-3	Added	2013-02	2/05/2013

7. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
270-10-50-1	Amended	2013-02	2/05/2013

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in Accounting Standards Updates No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, and No. 2011-12, *Comprehensive Income (Topic 220): 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*, for all entities. The objective of this Update is to improve the reporting requirements for reclassifications out of accumulated other comprehensive income in a manner that balances the benefits to users with the costs to preparers of financial statements.

Background

BC3. In June 2011, the Board issued Update 2011-05 as a result of its joint project with the IASB on the presentation of comprehensive income. Among other requirements in Update 2011-05, an entity was required to present on the face of the financial statements the effect that amounts reclassified out of accumulated other comprehensive income had on individual line items of net income and the components of other comprehensive income. Before the issuance of Update 2011-05, U.S. GAAP did not require that the effect of reclassifications out of accumulated other comprehensive income on the line items of net income be presented in the financial statements. Instead, preparers had the option to present the effects of reclassifications out of accumulated other comprehensive income on comprehensive income only, either on the face of the financial statement in which comprehensive income is reported or in the notes to the financial statements.

BC4. The Board initially decided to include this new requirement in Update 2011-05 on the presentation of reclassifications out of accumulated other comprehensive income in response to the request of stakeholders, primarily

users of financial statements, who indicated that the requirement would clarify the effect of reclassifications on individual line items of net income. Those stakeholders also noted that this presentation would make transparent any earnings resulting from the strategic selling of appreciated financial instruments previously reported in accumulated other comprehensive income.

BC5. Some stakeholders, primarily preparers of financial statements, opposed the additional presentation requirements. They mentioned the potential cluttering effect the requirements would have on the statements where net income is presented and how that could distract users from more important information. The opponents alternatively suggested either presenting the reclassifications in the statement where accumulated other comprehensive income is presented only, allowing an option of presenting the reclassifications to net income in the notes, or requiring that information on reclassifications to net income be disclosed in the notes. A few respondents noted that some entities may have operational difficulties in identifying the timing of when certain reclassifications are reported in net income.

BC6. Once they began the process of implementing Update 2011-05, preparers raised additional concerns about the presentation requirements for the net income effects of amounts reclassified out of accumulated other comprehensive income. One concern was about the operability of the requirement to show the effect of reclassifications on both the line items of net income and the components of other comprehensive income. Some stakeholders noted that certain reclassifications out of accumulated other comprehensive income may initially be reclassified to a balance sheet account and subsequently be recognized in net income at a later date. Some entities were unclear about whether it was the Board's intent to require entities to track those amounts to net income that had previously been reclassified to a balance sheet account out of accumulated other comprehensive income. If this was the Board's intent, then stakeholders asked that additional time be provided to develop methods for obtaining this information.

BC7. The Board concluded that it was not feasible before the effective date of Update 2011-05 to consider how to address the issues described in paragraphs BC5 and BC6. Therefore, the Board decided to defer in Update 2011-12 the effective date of the changes to the presentation requirements for the net income effects of amounts reclassified out of accumulated other comprehensive income and to perform additional outreach and analysis of alternatives for the presentation of the net income effects of amounts reclassified out of accumulated other comprehensive income.

Outreach with Preparers

BC8. During the outreach with stakeholders, preparers asked the Board to permit an entity to present information about the effect of reclassifications on each line item of net income in a note disclosure rather than on the face of the

income statement. Many preparers explained that users of their financial statements have not requested that additional information be presented on the face of the financial statements and appear to be comfortable with the presentation of such reclassification information in the notes. For some preparers, providing this information on the face of the statement where net income is presented would significantly increase the number of line items in the statement. Also, some preparers said that requiring this information to be presented on the face of the financial statements would have a negative effect on users of financial statements by cluttering the statements with numerous additional line items.

BC9. The Board learned that many current information systems are able to provide information about the effect of reclassifications out of accumulated other comprehensive income to net income for many amounts of other comprehensive income such as cash flow hedges, unrealized gains and losses on available-for-sale securities, and foreign currency translation adjustments. U.S. GAAP already requires this information to be disclosed, though not all in the same location. In addition, most of these amounts are reclassified to net income in their entirety in a single reporting period. For those amounts, preparers did not think that it would be costly to provide the information necessary to comply with the presentation requirements of Update 2011-05.

BC10. However, preparers noted that some reclassifications out of accumulated other comprehensive income are not reclassified in their entirety to net income in the same reporting period but are at least partially reclassified to a balance sheet account and not reported in net income until a later reporting period. For example, Topic 715 requires that certain pension and other postretirement benefit period costs be capitalized to balance sheet accounts in categories such as inventory or property, plant, and equipment. Many entities with multiple and complex pension and postretirement benefit plans capitalize postretirement benefit costs to balance sheet accounts and would incur significant costs to track and report those amounts that are later reported in net income. Once postretirement benefit costs are allocated and capitalized into balance sheet accounts (typically through their cost accounting systems), those systems do not track these capitalized costs further and cannot separately identify those that initially were reported in accumulated other comprehensive income.

BC11. Many stakeholders were concerned that tracking reclassifications out of accumulated other comprehensive income into earnings would represent only a portion of total postretirement benefit costs because some of those costs reclassified sometimes are transferred to a balance sheet account. The preparers noted that Topic 715 already requires significant disclosures about postretirement benefit costs but does not require information to be presented about the specific line items in the income statement where net periodic postretirement benefit cost is reported. Some preparers suggested that the Board consider eliminating the requirement to capitalize postretirement benefit costs or

to consider minimizing the postretirement benefit costs that first are reported in other comprehensive income.

BC12. Life insurance companies also identified an issue in tracking other comprehensive income reclassifications to net income for certain items such as intangible assets and liabilities arising from business combinations, deferred acquisition costs, and liabilities related to certain universal life-type insurance products, deferred annuities, and variable and equity-based life and annuity products. The assets related to these insurance products are amortized using the “gross profit” method. The calculations required to determine the amortization amount for each reporting period are complex and are generally performed separately for portfolios of similar insurance policies. These calculations take into consideration several factors such as the fees, charges, and investment returns in excess of policyholder benefits and certain direct expenses, all of which involve significant judgments as to mortality, policyholder behavior, and other factors. In this situation, paragraph 320-10-S99-2 provides guidance for insurers to make adjustments to deferred acquisition costs and other balances subject to this amortization method to reflect the actual and estimated future effect of unrealized gains and losses recognized in accumulated other comprehensive income as if those unrealized gains and losses were realized. However, U.S. GAAP does not require that the amortization related to these adjustments be reported separately.

BC13. Preparers from life insurance companies also raised a related concern about traditional long-duration insurance contracts in the situation where significant unrealized gains, indicative of a lower interest rate environment, would result in a premium deficiency if such gains were realized and proceeds were invested in lower yielding investments. The guidance in paragraph 320-10-S99-2 results in an adjustment to reflect a reduction of deferred acquisition costs and the establishment of additional benefit reserves (to the extent deferred acquisition costs are reduced to zero) with a corresponding reduction to unrealized gains in accumulated other comprehensive income.

BC14. Some preparers from life insurance companies told the FASB staff that they currently do not compute separately the effect of the reclassifications out of accumulated other comprehensive income on the amounts of deferred acquisition costs, as well as other insurance-related balances that are subsequently recognized in net income. These preparers said that it would be very difficult and costly to compute the effect. Specifically, determining the amount that is reported as reclassified out of accumulated other comprehensive income and is recorded to net income is complicated when the estimates used to initially record the adjustment to accumulated other comprehensive income change for actual results and updated assumptions. Preparers further noted that the active FASB-IASB joint project on insurance accounting is likely to have a significant effect on how deferred acquisition costs must be accounted for and reported in the financial statements. As a result, they are concerned about

making costly temporary adjustments to their financial reporting information systems at this time.

Outreach with Users

BC15. The Board received mixed feedback from users when asked if it is necessary to have the effect of amounts reclassified out of accumulated other comprehensive income on net income presented on the face of the financial statements. Generally, most users agreed that presenting this information on the face of the financial statements would result in a cluttering and confusing presentation of the statement where net income is presented for entities with many significant amounts of reclassifications. Additionally, a majority of users said that presenting this information on the face of the financial statements could give undue prominence to these amounts.

BC16. Most users explained that current disclosure requirements for cash flow hedges, foreign currency translation adjustments, and available-for-sale securities provide sufficient information about the net income effects of reclassifications out of accumulated other comprehensive income. Many users explained that most adjustments made during their analysis involve adjusting net income for certain valuation changes in available-for-sale securities as if these fair value remeasurements had been included in the computation of net income.

BC17. Users from large institutional investment firms and rating agencies said that a single note compiling currently disclosed information about amounts reclassified out of accumulated other comprehensive income to net income would be helpful but was not critical to their analysis. Even though this note would not provide any “new” information (addressing the postretirement benefit expense and deferred acquisition cost issues discussed above), some users said that a single, tabular presentation would allow users to easily locate in one place all information about accumulated other comprehensive income amounts reclassified to net income.

BC18. In contrast, a few users said that the effect of reclassifications out of accumulated other comprehensive income to net income should be presented on the face of the income statement. These users also disagreed with the basic concept of reclassifying (or recycling) amounts from accumulated other comprehensive income to net income. In addition, some users noted that if reclassifications are required to be presented on the face of the financial statements, the reclassification information should be required at the time earnings are released.

BC19. One user group that represents both institutional investors and other financial statement users noted that many users do not ask questions about reclassifications out of accumulated other comprehensive income because they are not fully aware that those amounts may have a significant effect on net

income and because they do not have a complete understanding about the amounts that go into other comprehensive income in general. This user group felt strongly that many analysts are unaware of the pervasive effect that reclassification amounts have on the various line items in the income statement. This user group said that presentation of reclassifications preferably should be made on the face of the financial statements, but a note disclosure also would be helpful, particularly to noninstitutional investors to alert them when net income may have been significantly affected by the reclassification of amounts out of accumulated other comprehensive income that were reported in comprehensive income in a prior period. Noninstitutional users often do not have the resources and systems that are available to larger, institutional investors and, therefore, the new presentation requirements would be helpful to them.

BC20. With respect to the postretirement benefit disclosures, many users said that information about net periodic postretirement benefit cost is less relevant to their analysis than net periodic postretirement benefit expense (which is currently not required to be disclosed). Several users explained that understanding the effect of capitalized postretirement benefit costs in income statement line items such as depreciation and cost of goods sold would be helpful in analyzing a company's operating margins. However, having information only about the postretirement benefit expense that had been reclassified from accumulated other comprehensive income would have little value because total postretirement benefit expense is not reported under U.S. GAAP. Users who focus on analyses of operating margins of a company would not be able to distinguish the effect of changes in postretirement benefit expense on changes in cost of goods sold. Depending on the depreciation rate and inventory turnover, the delay between when a fluctuation in net periodic postretirement benefit cost is disclosed and when this fluctuation is ultimately expensed to net income can vary significantly and also would depend on the entity's inventory method such as FIFO versus LIFO.

BC21. Users of insurance company financial statements were asked if current disclosures about deferred acquisition cost reclassifications are adequate. One user explained that the information about deferred acquisition cost reclassifications out of accumulated other comprehensive income to net income was not important because deferred acquisition costs are always amortized to the same line item in the income statement. Another user explained that additional information would be useful to have but is not necessary, particularly given the proposed changes to insurance accounting that may eliminate the separate reporting of deferred acquisition costs.

Basis for Conclusions

BC22. On August 16, 2012, the Board issued proposed Accounting Standards Update, *Comprehensive Income (Topic 220): Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income*. The Board received 31

comment letters and 1 electronic feedback form for a total of 32 respondent submissions.

BC23. The Exposure Draft proposed that the presentation requirements deferred by Update 2011-12 should not be reinstated because of the high costs to preparers and the potential cluttering effect on the statement(s) where comprehensive income is reported.

BC24. The Board proposed that information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income could be improved for users with little cost to preparers by requiring that an entity provide enhanced disclosures to present separately by component of other comprehensive income the effect of reclassifications out of accumulated other comprehensive income. In addition, an entity would be required to provide a tabular disclosure showing the effect of amounts reclassified from accumulated other comprehensive income on the line items of net income for those amounts required by U.S. GAAP to be reclassified to net income in their entirety. However, for other reclassification amounts where U.S. GAAP does not require them to be reclassified to net income in their entirety, such as those related to postretirement benefit costs and deferred acquisition costs, the new disclosures would require references to other note disclosures currently required under U.S. GAAP.

BC25. The majority of the respondents to the Exposure Draft strongly agreed with the Board's decision to not reinstate the presentation requirements deferred by Update 2011-12 that required that reclassification information and the related effect on net income be presented on the face of the financial statements by line item. The majority of respondents agreed that the proposed amendments would provide useful information to users of financial statements. Proponents of the proposed amendments noted that the enhanced disclosures would assist management, as well as users, to easily locate and more fully understand how reclassifications from accumulated other comprehensive income affect the financial statements. Some respondents noted that the tabular disclosure that references various reclassification adjustments in a single location provides a cohesive "roadmap" to better understand reclassifications from accumulated other comprehensive income and their effect on the financial statements, including net income.

BC26. Some respondents disagreed with the proposed requirements in the Exposure Draft. About one-third of the respondents stated that the proposed disclosures would be redundant because they would not provide new information or that the proposed amendments appear to be inconsistent with the Invitation to Comment, *Disclosure Framework*, and would contribute to "disclosure overload."

BC27. Some respondents noted areas of the guidance that need to be clarified or improved. Some felt that mandating a specific presentation format would be inconsistent with the Invitation to Comment on disclosure framework. These respondents suggested that the Board permit more flexibility in formatting the required information to reduce redundancy and to better explain how other

comprehensive income affects the financial performance of the entity. Some respondents suggested allowing an entity to cross-reference any required disclosures in the table required by paragraph 220-10-45-14A elsewhere in the notes to the financial statements, thereby eliminating the disclosure redundancy found in the proposed disclosure requirements in paragraph 220-10-45-17. Others suggested permitting an entity to provide a narrative description about where reclassifications out of accumulated other comprehensive income are presented in the statement where net income is presented. Other respondents said that this information could be pulled together using XBRL, therefore eliminating the need for additional disclosures.

BC28. A few respondents questioned whether it was the Board's intent to remove the option for an entity to present on the face of the financial statements the disclosure requirements in paragraph 220-10-45-17, which presents the effect of amounts reclassified out of accumulated other comprehensive income on net income. Currently, in U.S. GAAP (before the amendments to paragraph 220-10-45-17) an entity has the option of presenting this information on the face of the financial statements. These respondents suggested clarification on this matter. They also said that this option should be available to entities because it would increase the prominence of the effects of these reclassification amounts on net income and provide greater transparency to users.

Reporting Requirements for Reclassifications Out of Accumulated Other Comprehensive Income

BC29. The Board decided that the presentation requirements about the effect of reclassification adjustments out of accumulated other comprehensive income on each line item of net income that were deferred by Update 2011-12 should not be reinstated because of the significant costs to preparers and the potential cluttering effect on the statement(s) where comprehensive income is reported. However, the Board decided that the requirements for reporting the changes in the accumulated balances for each component of other comprehensive income should include a presentation, by component, that separates those amounts that are current-period reclassifications and those amounts that represent other amounts of current-period other comprehensive income in one location, either on the face of the financial statements or in the notes.

BC30. The Board decided that user needs for information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income could be improved, with little cost to preparers, by requiring that an entity provide enhanced disclosures to present separately by component of other comprehensive income the effect of reclassifications out of accumulated other comprehensive income on net income. However, the Board decided that for amounts that are not reclassified in their entirety in one reporting period, an entity should provide a cross-reference to the note that contains the disclosures required by U.S. GAAP about those amounts

(for example, net periodic pensions costs). The Board decided to provide this relief to the preparers because of the undue cost that would be required to report the effect on net income line items for those reclassifications.

BC31. The Exposure Draft proposed to require, for all entities, a tabular disclosure by component of accumulated other comprehensive income that presents the effect of significant reclassifications on the line items in the statement of net income for those amounts that are reclassified to net income in their entirety. The Exposure Draft also proposed to require a reference to related disclosures in the notes for those reclassifications that are not reclassified in their entirety in the same reporting period. In addition, the total for such a tabular disclosure must agree to the total change due to reclassifications that is presented where the total changes in accumulated other comprehensive income are shown. However, during redeliberations, the Board agreed with stakeholders who suggested permitting an option to present the information on the face of the financial statements when an entity has only a few reclassification amounts and that entity could simply show the effect of those reclassifications parenthetically by line item on the face of the statement where net income is presented rather than comply with the proposed tabular disclosure.

BC32. The Board decided that it was important to users to have a roadmap in one place about the effect of reclassifications on the financial statements. As a result, the Board decided that it would be permissible for an entity that has only reclassifications that are reclassified directly to net income in their entirety in the same reporting period to report those reclassifications parenthetically on the face of the statement as long as all of the information about those significant reclassifications that would be required in the tabular disclosure is presented in one place (that is, on the face of the statement). The Board also decided that it is important that the tax effect of significant amounts be shown parenthetically in total on the face of the financial statements, if the entity presents the effect of significant reclassifications on the face of the financial statements. This Update includes an example of a parenthetical disclosure of the effect of reclassifications on the line items by an entity that only has a few reclassifications on the face of the statement.

BC33. The Board also considered the views of stakeholders who said that a specific tabular format may not be the best way to explain reclassifications to their users because they have complex adjustments that require more detailed explanation. The Board decided that an entity could adjust the format of the disclosure in the notes to meet the needs of its users as long as the required information is in one place and includes all of the elements described in the tabular format. However, for an entity that has numerous, significant reclassifications, a tabular format may be more suitable. Therefore, this Update retains the example of a tabular disclosure that was proposed in the Exposure Draft.

Interim Financial Reporting

BC34. The Board considered whether to require the information about reclassifications out of accumulated other comprehensive income by component and their corresponding effects on net income line items for interim reporting periods. The Board decided that the information about reclassifications should be required for interim reporting periods because the information is important to users of financial statements and because reclassification information is already required by other accounting guidance for key amounts of other comprehensive income such as cash flow hedges and available-for-sale securities.

BC35. Some respondents asked the Board to provide additional guidance about the level of detail required for reporting reclassifications out of accumulated other comprehensive income and their corresponding effects on line items of net income in condensed financial statements prepared for interim reporting periods. The Board reviewed the SEC guidance for condensed financial statements, which provides guidance on the extent of detailed information required for interim financial statements based on materiality and the volatility of the amounts reported. The Board decided not to provide additional guidance on this issue.

Nonpublic Entities

BC36. The Board considered whether to provide nonpublic entities with different presentation requirements about reclassifications out of accumulated other comprehensive income and their corresponding effects on line items of net income. The Board decided to require the same presentation requirements for nonpublic entities for annual financial statements because the information provided would be relevant to users. However, the Board decided that nonpublic entities would not be required to provide the effect of reclassifications out of accumulated other comprehensive income on individual line items of net income for interim financial reporting because nonpublic entities are not currently required to provide this underlying information for interim financial statements. However, the Board decided that nonpublic entities would be required in interim periods to provide, in one place, information on the amounts transferred out of accumulated other comprehensive income by component of other comprehensive income.

Effective Date and Transition

BC37. The Board considered whether to require retrospective or prospective application of the amendments to the presentation requirements for reclassifications out of accumulated other comprehensive income. The Board decided that the guidance should be applied prospectively similar to other disclosure guidance because of the increased cost that would be incurred to identify prior-period reclassifications that would be required in a retrospective application.

BC38. The Board decided that for public entities, the guidance should be effective for annual reporting periods beginning after December 15, 2012, and interim periods within those annual periods. The Board decided that it was important that the presentation requirements in this Update be effective as soon as possible, given that the other presentation guidance in Update 2011-05 was already effective. The Board also decided to delay the effective date for nonpublic entities until annual reporting periods beginning after December 15, 2013. Early adoption is permitted for both public entities and nonpublic entities.

Benefits and Costs

BC39. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC40. Users of financial statements noted that it is very important to be able to quickly identify unusual activity in annual and interim-period financial performance that may signal a changing trend or activity. Some users noted that additional, timely information about the effect of reclassifications out of accumulated other comprehensive income on net income would provide a significant benefit in making such assessments. They did acknowledge, however, that such a disclosure would require significant changes to the current accounting and reporting of postretirement benefit costs and insurance contracts. Some users said that the requirements would be beneficial because they would simplify their analysis of accumulated other comprehensive income and other comprehensive income.

BC41. The Board considered the costs that would be incurred if significant changes are made to the accounting for insurance and the accounting for postretirement benefits. The Board has concerns about requiring preparers to incur significant costs to implement changes in presentation at this time when the underlying accounting requirements may undergo significant change and require additional changes to the related disclosures about the effects of reclassifications out of accumulated other comprehensive income on net income. Therefore, while the amendments in this Update require preparers to present information in a new format, they do not require information that is not currently required by other accounting standards.

BC42. Representatives of nonpublic entities did not raise significant concerns about the cost to gather the information required to comply with the Update, except for the interim reporting periods. The Board considered this input and decided to exempt nonpublic entities from one of the additional disclosure requirements for interim reporting periods.

Amendments to the XBRL Taxonomy

Changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) will be required as a result of the amendments to the *FASB Accounting Standards Codification*[®]. Those changes were incorporated into the 2013 Taxonomy submitted to the SEC for approval in December 2012.