



Board Meeting Handout

Presentation of Comprehensive Income: Reclassifications Out of Accumulated Other Comprehensive Income

December 19, 2012

Introduction

1. The purpose of this meeting is to ask the Board for further clarification and guidance related to the previous decision to permit an entity to present significant reclassifications of items out of accumulated other comprehensive income (AOCI) into income on the face of the statement of income or comprehensive income.
2. On November 12, 2012, the Board voted to allow an entity to present the information requirements of paragraph 220-10-45-17 on the face of the financial statements provided that reporting included all significant reclassification items on the face of the financial statements (that is, as long as the required information is presented in a single location).

Background of Issue

3. The staff notes that the tabular format for presenting the impact of significant reclassifications on net income described in the ED (paragraph 220-10-45-17) also would require an entity to (a) comply with the tax presentation guidance found in paragraph 220-10-45-12 which requires an entity to disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income, including reclassification adjustments and (b) present a break out for total insignificant items. The ED also would require that the totals of the tabular footnote agree with the total reclassifications by component that is required in the rollforward of accumulated other comprehensive income (paragraph 220-10-45-14A.) This typically would result in an entity providing the tax effects of

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significant as well as insignificant reclassifications of each component of other comprehensive income in order to allow an entity to agree the total, net-of-tax amount of reclassifications out of accumulated other comprehensive income provided by the requirements of 220-10-45-17 to the disclosure requirements of paragraph 220-10-45-14A.

4. During redeliberations, the Board decided that as long as all of the required information is presented in one place, an entity could present the information on the face, or in a tabular disclosure or similar disclosure. The Board did not discuss, however, whether this implied that an entity would have to provide a total for all reclassifications which, as in the proposed table, would provide a financial statement user with a roadmap that includes both significant and insignificant reclassifications, related tax expense or benefit amounts, and a total that would agree with the reclassification total in the required rollforward of accumulated other comprehensive income.
5. In short, the staff would like to clarify whether the Board intended to require an entity to present a total for each component of other comprehensive income of both significant and insignificant reclassification items complete with related tax effect information that would agree with the reclassification total in the required rollforward of accumulated other comprehensive income (paragraph 220-10-45-14A).

Issues with Presenting Paragraph 220-10-45-17 on the Face

6. The staff notes that if an entity has items that reclassify out of accumulated other comprehensive income that impact several line items of net income, there appears to be no appropriate place to provide a total of significant reclassification items for each component of other comprehensive income on the face of the financial statements. In addition, an entity may also have items that are insignificant, which would not be identified or included in a total for reclassifications that would agree to the total for reclassifications in the required rollforward of accumulated other comprehensive income.

Question for the Board

When the Board voted to allow an entity to present the information requirements of 220-10-45-17 on the face of the financial statements provided that “all the information was provided in the same location”, was it the Board’s intent that if an entity chose to present this information on the face, it would also be required to:

- (A) Provide a total for all reclassification items by component that would agree to the total reclassification amounts by component, required in paragraph 220-10-45-14A on the face of the financial statements?
- (B) Include amounts for insignificant items reclassified in order to include this amount in the total for all reclassification items by component described in (A) above?
- (C) Provide the required income tax expense or benefit information required by 220-10-45-12 on the face of the financial statements?

7. If the Board votes yes to the question above, the staff will have additional questions for the Board.

Complexity

8. The introduction to the ED explained that the objective of the proposed Update was to “improve the presentation of reclassifications out of accumulated other comprehensive income” and that the proposed amendments would “improve the presentation requirements without imposing significant costs to preparers of financial statements.” The staff believes that the initial requirement to have a single tabular format for the disclosure about reclassifications was simple and straight-forward for preparers to understand. However, in adding the alternative presentation formats to the draft, the staff notes that the addition of alternatives may result in complexity in the final guidance.

Alternatives

9. After considering the issues raised during drafting as well as concerns about complexity, the staff believes that the Board could consider two alternatives.

- (a) **Alternative 1:** Clarify that an entity presenting the requirements of paragraph 220-10-45-17 on the face, would need to provide a total and related tax information. Practically speaking, this would likely result in most entities providing this information in the notes to the financial statements with only a few entities with a few significant reclassification items presenting this information on the face of the financial statements.
- (b) **Alternative 2:** Draft the final guidance so as to primarily require the tabular format in the same manner that was in the ED. However, explicitly provide an exception to this requirement and allow presentation on the face if there is only one net income line item impacted by any significant reclassification items for each component of other comprehensive income (that is, providing a total of significant reclassification items is unnecessary as the impact on a single net income line item is equal to the amount reclassified out of accumulated other comprehensive income for the related component of other comprehensive income).
- (c) **Alternative 3:** Draft the final guidance that includes what the disclosure requirements are and neither permit or preclude face presentation. However, the illustrative guidance would demonstrate a tabular format. If an entity chose to present the information on the face, it would be left to their professional judgement to determine how best to provide all the data.

Question for the Board

If the Board decides to require an entity to provide a total of significant reclassification items by component and related tax expense/benefit information, which alternative would the Board like to pursue in drafting the final Update?

Next Steps

10. Constituents have expressed concern over the timing of the release of the document. Many entities will have already prepared and distributed interim reporting packages to operating units by the time this standard is issued.
11. The following outlines the staff's tentative schedule for completing the final Update. Based on the dates outlined below, the staff would like to ask the Board if they still would like to keep the effective date for public entities for fiscal and interim periods beginning after December 15, 2012 with an additional year for nonpublic entities.

January 2, 2013	Preballot/External Review
January 16, 2013	Ballot
January 30, 2013	Postballot/Production

Question for the Board

Does the Board wish to affirm the effective date for public entities as fiscal and interim periods beginning after December 15, 2012 with an additional year for nonpublic entities?



Board Meeting Handout

Nonpublic Entities:

Clarification of a Fair Value Disclosure Requirement

ISSUE SUMMARY

1. On December 17, 2012, the Chair consulted with the Board members and staff to consider whether to add a project to the FASB's agenda to clarify the applicability of a fair value disclosure for nonpublic entities, which is effective for annual periods beginning after December 15, 2011 (for example, calendar 2012).
2. Constituents requested clarification of the applicability to nonpublic entities of the following amendment to Topic 825 (Financial Instruments) that resulted from the issuance of Update 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*:

Disclosure

> Fair Value of Financial Instruments

825-10-50-10 ~~AmA~~ reporting entity shall disclose all of the following:

- a. Either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments for which it is practicable to estimate that value
- b. The method(s) and significant assumptions used to estimate the fair value of financial instruments consistent with the requirements of paragraph 820-10-50-2(bbb) except that a reporting entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by that paragraph
- c. A description of the changes in the method(s) and significant assumptions used to estimate the fair value of financial instruments, if any, during the ~~period~~ period
- d. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

For financial instruments recognized at fair value in the statement of financial position, the disclosure requirements of Topic 820 also apply.

3. Constituents expressed concern that the addition of paragraph 825-10-50-10(d) does not provide an explicit exemption for *all* nonpublic entities. Thus, it is inconsistent with the Board's intent and decision reached at its December 21, 2010 meeting and as stated in the Summary of Update 2011-04, to exempt nonpublic entities from the disclosure requirement for items disclosed at fair value but not measured at fair value in the statement of financial position.
4. Currently, the staff is considering the following language for an amendment to Topic 825:

825-10-50-3 Except as noted in the following paragraph, f For annual reporting periods, the disclosure guidance related to fair value of financial instruments in paragraphs 825-10-50-10 through 50-19 applies to all entities but is optional for an entity that meets all of the following criteria:

- a. The entity is a **nonpublic entity**.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under Topic 815 other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

825-10-50-3A A nonpublic entity is not required to provide the disclosure in paragraph 825-10-50-10(d) for items disclosed at fair value but not measured at fair value in the statement of financial position.

Question

5. If the project is added to the agenda, does the Board:
 - a. Agree with proposed correction
 - b. Authorize the staff to proceed to drafting the ballot of a proposed ASU (Exposure Draft) to clarify the applicability of the fair value hierarchy level disclosure requirement of Update 2011-04 to nonpublic entities
 - c. Agree that a comment period of 15 days is sufficient and appropriate?