

## MINUTES



Financial Accounting  
Standards Board

**To:** Board Members  
**From:** Financial Statement Presentation Team (Milne, ext. 393)  
**Subject:** Minutes of the October 14, 2009 Board Meeting: Classification of OCI, and allocation and presentation of income taxes  
**Date:** October 20, 2009  
**cc:** FASB: Golden, Bielstein, Lott, Stoklosa, Proestakes, Smith, Posta, Chookaszian, Klimek, Gabriele, Sutay, Petrone, Cafini, Cappiello, Milne, Debblor, FASB Intranet; IASB: Gomez, Schmidt, Perkovich

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Accounting Standards Update.*

<u>Topic:</u>	Financial Statement Presentation
<u>Basis for Discussion:</u>	FASB Memorandum #69, 69A, 69B
<u>Length of Discussion:</u>	10:00 a.m. to 10:20 a.m. (Eastern)
<u>Attendance:</u>	
Board members present:	FASB: Herz, Seidman, Smith, and Siegel
Board members by phone:	Linsmeier
Staff in charge of topic:	Petrone and Milne
Other staff at Board table:	Golden, Hales, Smith, and Debblor
IASB staff on the phone:	Schmidt, Gomez, Perkovich

## Summary of Decisions Reached

The Board continued deliberating the proposals in the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation*, making the tentative decisions described below:

1. For each item in the other comprehensive income section (with the exception of a foreign currency translation adjustment on a consolidated subsidiary) an entity should identify and indicate on the statement of comprehensive income the category or section to which the item relates, as proposed in the Discussion Paper.
2. An entity should apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income, including the requirement that an entity present components of other comprehensive income either net of related tax effects or before related tax effects, as proposed in the Discussion Paper.
3. An entity should disclose the amount of income tax allocated to each component of other comprehensive income, as is required under current U.S. generally accepted accounting principles (GAAP).
4. An entity should present current and deferred income tax assets and liabilities recognized in accordance with U.S. GAAP and related cash flows in an income tax section on the statement of financial position and the statement of cash flows, as proposed in the Discussion Paper.

## Objective of Meeting:

The objectives of this meeting were to discuss (1) the classification of items of other comprehensive income (OCI) on the statement of comprehensive income (SCI), (2) the allocation of income taxes on the SCI, (3) the disclosure of income taxes for the OCI section, and (4) the presentation of income taxes on the statement of financial position (SFP) and statement of cash flows (SCF).

The objectives of the meeting were met.

Matters Discussed:

**Issue 1—The statement of comprehensive income**

1. Ms. Milne stated that the discussion paper proposed that an entity present a single statement of comprehensive income. She noted that both the FASB and the IASB have made decisions in their financial instruments projects that require consideration of whether an entity should be required to present a single statement of comprehensive income. Ms. Milne said that the FASB will address a single SCI in its exposure draft on financial instruments and the IASB has agreed to address the issue in the near-term in something other than the FSP project.
2. Ms. Milne commented that with the OCI section on the face of the SCI, the classification of items of OCI becomes a topic for deliberation. She said that the staff continues to support the Board's preliminary view that indicating the section or category to which each item of OCI relates will provide users of financial statements with decision-useful information. She further noted that the majority of respondents to the discussion paper also agreed with that view.
3. Ms. Milne said that the discussion paper notes that it may be difficult to identify the related category for a foreign currency translation adjustment on a consolidated subsidiary because the adjustment may relate to more than one category of assets and liabilities in the statement of financial position. She commented that comment letter respondents did not express concern with the Board's preliminary view of the exception for foreign currency translation adjustments.

Staff Recommendation:

4. The staff recommended that the Board retain the requirement proposed in the discussion paper that, for each item in the OCI section with the exception of a foreign currency translation adjustment on a consolidated subsidiary, an entity should identify and indicate on the statement of comprehensive income the category or section to which the OCI item relates.

Board vote:

5. The Board unanimously agreed with the staff recommendation.

Board comments:

6. None

**Issue 2—Income tax allocation**

7. Ms. Petrone stated that the discussion paper proposed that an entity should apply existing requirements for allocating income taxes. The current standards require allocation of taxes to continuing operations, discontinued operations, OCI items, and certain components of equity. She said that the majority of respondents to the discussion paper agreed with the Board’s preliminary view. Ms. Petrone noted that most respondents said income tax information is useful at the level it is currently presented.

Staff Recommendation:

8. The staff recommended retaining the proposal in the discussion paper that an entity should apply existing requirements for allocating and presenting income taxes in the SCI.

Board vote:

9. The majority of Board members agreed with the staff recommendation. Mr. Smith did not support the staff recommendation.

Board comments:

10. Mr. Smith stated that he does not agree with the staff recommendation. He commented that in his view, intraperiod tax allocation is arbitrary and complex. He said that he would be comfortable presenting income tax expense as part of net income and not worry about having to allocate it to OCI or other sections.

11. Ms. Seidman said that in earlier deliberations, it was discussed that disclosures would be required in order to provide users with enough information for them to attribute tax to the various components. She commented that there was a perceived need by users for income taxes to be allocated. Ms. Seidman noted that it would be as arbitrary, if not more so, for a user of the financial statements to try to allocate the taxes than if the preparer of those financial statements were required to do the allocation. She commented that management is in the best position to make the allocations.
12. Mr. Siegel agreed that there is demand by users to have income taxes allocated to the different sections.

### **Issue 3—Income tax presentation in OCI**

13. Ms. Petrone stated the proposed presentation model would require an allocation of income taxes to the individual components of OCI. She noted that the discussion paper did not have a specific question on this issue since existing requirements would be retained but some (mostly IFRS) respondents to the discussion paper disagreed with having to allocate income taxes to each OCI item. Ms. Petrone said that current requirements allow an entity to present components of OCI either (a) net of related tax effects or (b) before related tax effects (with disclosure of the income taxes allocated to each component).
14. Ms. Petrone further noted that there is a memorandum for the October 2009 joint meeting that also addresses income tax presentation in the OCI section. The staff recommendation in that paper is to require all entities to present each component of OCI on a gross basis (before the related tax effects) on the SCI and present a single amount for income taxes allocated to OCI items. In other words, remove the existing alternative of presenting the components of OCI net of related tax effects.

#### **Staff Recommendation:**

15. The staff recommended retaining the existing requirement that an entity present components of OCI either (a) net of related tax effects or (b) before related tax

effects and that an entity disclose the amount of income tax allocated to each component of OCI (if that amount is not apparent on the SCI).

Board vote:

16. The Board unanimously agreed with the staff recommendation.

Board comments:

17. Mr. Herz said that he supports retaining existing requirements because it would provide users with enough information to make any adjustments they feel are necessary to analyze the financial statements.

18. Mr. Siegel agreed with Mr. Herz and noted that most companies show the OCI items net of tax. He stated that if companies were **required** to show the OCI items on a gross basis it could confuse users.

19. Mr. Linsmeier noted that some OCI items could be subject to capital gains taxes. Mr. Golden noted that some items in the OCI section would be taxed at different rates. Mr. Linsmeier commented that there would be different rates for different classes within OCI and presenting only one income tax amount in the OCI section would not help users to understand the full effect of income taxes.

**Issue 4—Income tax presentation in the SFP and SCF**

20. Ms. Petrone stated that the discussion paper proposed that income tax assets, liabilities, and cash flows be presented in a separate income tax section on the SFP and SCF. She noted that there was not a specific question in the discussion paper and respondents did not raise concerns about this proposal.

Staff Recommendation:

21. The staff recommended retaining the proposal in the discussion paper that an entity present current and deferred income tax assets and liabilities recognized in accordance with U.S. GAAP and related cash flows in an income tax section on the SFP and the SCF.

Board vote:

22. The Board unanimously agreed with the staff recommendation.

Board comments:

23. Ms. Seidman questioned if people would want attribution of which deferred tax assets or liability relates to which OCI item. Mr. Golden noted that this information could probably be found in the footnotes. Ms. Petrone clarified that the staff is not recommending an entity be restricted to how many line items it presents in the income tax section on the financial statements, just that the tax information should all be in one place.

Follow-up Items:

None.

General Announcements:

None.