

Proposed Accounting Standards Update

Issued: August 16, 2012 Comments Due: October 15, 2012

Comprehensive Income (Topic 220)

Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income

This Exposure Draft of a proposed Accounting Standards Update of Topic 220 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director File Reference No. 2012-240

Financial Accounting Standards Board of the Financial Accounting Foundation

The FASB Accounting Standards Codification® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by October 15, 2012. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at <u>Exposure Documents Open for Comment</u>
- Emailing a written letter to <u>director@fasb.org</u>, File Reference No. 2012-240
- Sending written comments to "Technical Director, File Reference No. 2012-240, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

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Summary and Questions for Respondents

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

The objective of this proposed Update is to improve the presentation of reclassifications out of accumulated other comprehensive income by disclosing their effect on the respective line items in net income if the item being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other items that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference other disclosures required under U.S. GAAP to provide additional detail about those items. The proposed amendments would improve the presentation requirements without imposing significant costs to preparers of financial statements.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would 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 in any period presented. 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 proposed amendments.

What Are the Main Provisions?

The proposed amendments would not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the proposed amendments would require an entity to provide enhanced disclosures to present separately by component reclassifications out of accumulated other comprehensive income. In addition, an entity would be required to provide a tabular disclosure of the effect of items reclassified out of accumulated other comprehensive income on the respective line items of net income but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety. For other reclassification items that are not required under U.S. GAAP to be reclassified directly to net income in their entirety, the new tabular disclosure only would require a cross-reference to other disclosures currently required under U.S. GAAP for those items.

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

Substantially all of the information that this proposed Update would require already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. However, the proposed new tabular disclosure about reclassifications out of accumulated other comprehensive income would present in one place information about the amounts reclassified and a road map to related disclosures. Currently, this information is presented throughout the financial statements.

When Would the Amendments Be Effective?

The effective date will be determined after the Board considers feedback on the amendments in this proposed Update. However, the Board discussed the possibility of making the amendments effective for public entities for annual reporting periods ending after December 15, 2012, and for interim and annual reporting periods thereafter. For nonpublic entities, the Board discussed delaying the effective date by one year after the effective date for public entities, that is, for the annual period ending after December 15, 2013, and interim and annual periods thereafter. The Board has included a separate question below about whether those effective dates would be practicable.

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

Under IFRS, entities report fewer items in other comprehensive income and they are not required to subsequently reclassify all items 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 tabular disclosures in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly

explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning. When referencing the proposed amendment, please cite the specific Codification reference paragraph.

Question 1: The proposed amendments would require an entity to provide enhanced disclosures to present separately by component reclassifications out of accumulated other comprehensive income. In addition, an entity would be required to provide a tabular disclosure of the effect of items reclassified out of accumulated other comprehensive income on the respective line items of net income, to the extent that the items reclassified are required under U.S. GAAP to be reclassified to net income in their entirety. In addition, for other items not required under U.S. GAAP to be reclassified in their entirety to net income, the tabular disclosure would require only a cross-reference to other disclosures providing additional detail about these reclassifications. Would the proposed disclosures provide useful information to users of financial statements? If not, please explain why.

Question 2: Would an entity incur significant costs because of the proposed amendments in Question 1? If so, please explain the nature of those costs. The proposed amendments also would require an entity to provide the disclosures about the effect of reclassifications out of accumulated other comprehensive income by component both on an interim basis and on an annual basis. Would an entity incur significant costs because of the proposed requirement for interimperiod disclosures? If so, please explain the nature of those costs.

Question 3: The proposed guidance would apply to both public entities and nonpublic entities (that is, private companies). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

Question 4: The Board has discussed the possibility of making these proposed amendments effective for public entities as early as for annual reporting periods ending after December 15, 2012, and to delay the effective date for nonpublic entities by one year. Would those effective dates be practicable? If not, please explain why.

Amendments to the FASB Accounting Standards Codification $^{\mathbb{B}}$

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Codification		
Paragraphs	Action	Description of Changes
220-10-45-14A Comprehensive Income—Overall— Other Presentation Matters	Amended	The proposed amendments would amend the presentation of changes in the balance of accumulated other comprehensive income.
220-10-45-17	Amended	The proposed amendments would amend presentation requirements for items reclassified out of accumulated other comprehensive income.
220-10-55-14A Comprehensive Income—Overall— Implementation Guidance and Illustrations	Added	The proposed amendments would provide implementation guidance for presentation requirements in paragraph 220-10-45-14A.
220-10-55-15	Amended	The proposed amendments would provide an example of the proposed presentation in paragraph 220-10-45-14A.
220-10-55-15A	Added	The proposed amendments would provide implementation guidance for presentation requirements in paragraph 220-10-45-14A.
220-10-55-17A through 55-17E	Added	The proposed amendments would provide implementation guidance and an example of the proposed presentation in paragraph 220-10-45-17.

Codification		
Paragraphs	Action	Description of Changes
220-10-65-3 Comprehensive Income—Overall— Transition and Open Effective Date Information	Added	The proposed amendments would define the transition method and effective date.
270-10-50-1 Interim Reporting— Overall— Disclosure	Amended	The proposed amendment would outline the requirements for interim disclosures.

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–6. 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 <u>underlined</u>, and deleted text is <u>struck out</u>.

Amendments to Subtopic 220-10

3. Amend paragraphs 220-10-45-14A and 220-10-45-17, 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, 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 The presentation of changes in accumulated balances, an entity shall present separately for each component of other comprehensive income, current period reclassifications and the remainder of the 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-forsale equity and debt securities. An entity shall present, in a tabular format, significant items reclassified out of each component of accumulated other comprehensive income and a subtotal for significant items. The total for each component of the table shall agree to the disclosure 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, the tabular disclosure shall identify, for those items that are required under U.S. GAAP to be reclassified to net income in their entirety, the line item affected by the reclassification on the statement where net income is presented. Any significant reclassification for which U.S. GAAP does not require the item to be reclassified to net income in its entirety, an entity shall cross-reference to the note where additional details about the effect of the reclassifications are disclosed. Additional implementation guidance is provided in paragraphs 220-10-55-17A through 55-17D. Paragraph 220-10-55-17E illustrates this tabular presentation requirement.

> 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.

4. Add paragraphs 220-10-55-14A, 220-10-55-15A, and 220-10-55-17A through 55-17E and their related heading and amend paragraph 220-10-55-15, 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.

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

220-10-55-14A 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.

220-10-55-15 The following table illustrates <u>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 comprehensive income, as <u>required</u> by <u>discussed in paragraph 220-10-45-14A</u>.</u>

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	\$ 6,000	\$ 29,600	\$ (3,600)	\$ 32,000

[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

	Los	ins and sses on sh Flow edges	Gai Los Avail	ealized ins and sses on lable-for- Securities	B	efined enefit ension Items	Cu	oreign irrency tems	 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 (b)		(750)		(1,500)		4,500		_	2,250
Net current-period other		(100)	-	(1,000)		.,,,,,,			 _,
comprehensive income		2,250		1,000		1,500		1,000	 5,750
Ending balance	\$	1,050	\$	2,000	\$	(7,300)	\$	2,300	\$ (1,950)

- (a) All amounts are net of tax. Amounts in parentheses indicate debits.
- (b) See separate table found in paragraph 220-10-55-17E for details about these reclassifications.

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

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

220-10-55-17A The disclosure of 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, shall 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 described in paragraph 220-10-45-14A. The illustration in paragraph 220-10-55-17E presents the effect of reclassifications on the line items 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 cost components from accumulated other comprehensive income directly to net income in the entirety. Rather, U.S. GAAP 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 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 required by 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 item as part of another line item, for example, other income/(expense).

220-10-55-17E The following table illustrates disclosure of significant items reclassified out of each component of accumulated other comprehensive income, as required by paragraph 220-10-45-17.

[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 $^{\rm (a)}$ 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) 750		Tax (expense) or benefit Net of tax			
	Ψ	730		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 Net of tax			
	\$	1,500		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)				
J (,		(6,000)		Total before tax			
		1,500		Tax (expense) or benefit			
	\$	(4,500)		Net of tax			

⁽a) Amounts in parentheses indicate debits.

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

- 5. Add paragraph 220-10-65-3 and its related heading as follows:
- > Transition Related to Accounting Standards Update No. 2012-XX, Comprehensive Income (Topic 220): Presentation of Items 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. 2012-XX. Comprehensive Income (Topic 220): Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income:

- The pending content that links to this paragraph shall be applied prospectively and is effective as follows:
 - For public entities, for fiscal periods, and interim periods within
 - those years, ending after [date to be inserted after exposure]

 For {add glossary link to 1st definition}nonpublic entities{add glossary link to 1st definition}, for fiscal years ending after [date to be inserted after exposure], and interim and annual periods thereafter.
- Early adoption of the pending content that links to this paragraph is permitted.
- 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

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:

<u>r.</u> The information about changes in accumulated other comprehensive income required by paragraphs 220-10-45-14A and 220-10-45-17.

The amendments in this proposed Update were approved for publication 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 proposed 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 proposed Update would 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 proposed Update is to improve the presentation requirements for reclassifications out of accumulated other comprehensive income in a manner that balances the benefits to users of financial statements with the costs that would be incurred.

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 would be required to present the effect that items reclassified out of accumulated other comprehensive income had on net income and other comprehensive income in the statement in which line items of net income and the components of other comprehensive income are presented. 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 measured and 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 on the presentation of reclassifications out of accumulated other comprehensive income in Update 2011-05 in response to the request of stakeholders, primarily users of

financial statements, who indicated that the requirement would clarify the effect of reclassifications on 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 effect would distract users from more important information. The opponents alternatively suggested either presenting the reclassifications in the statement where 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.

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 items reclassified out of accumulated other comprehensive income. One concern was about the operationality 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 items 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 the effective date of the changes to the presentation requirements for reclassifications of items out of accumulated other comprehensive income in Update 2011-12.

BC8. The Board decided that it was necessary to perform outreach to stakeholders to gather additional information about the costs and benefits of the presentation requirements about reclassifications out of accumulated other comprehensive income in Update 2011-05. The Board also decided to consider alternative presentation requirements that would better balance the costs and benefits to preparers and users of financial statements.

Outreach with Preparers

BC9. From the outreach with preparers, 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 items 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 disclosure requirements already require this information to be disclosed. For those items, 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. Many preparers said that they would have to incur significant costs to determine the effect of reclassifications out of accumulated other comprehensive income on net income that relate to postretirement benefit costs because those costs first may be reclassified to balance sheet accounts (such as inventory or fixed assets).

BC11. The majority of concern about the postretirement benefit reporting was expressed by companies with multiple and complex postretirement benefit plans and preparers that capitalize significant amounts of postretirement benefit and other costs to balance sheet accounts. For these preparers, such costs may be capitalized in asset categories such as inventory or property, plant, and equipment, in compliance with U.S. GAAP. Once postretirement benefit and other 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.

BC12. The majority of concern is that tracking reclassifications out of accumulated other comprehensive income into earnings would only represent a portion of total postretirement benefit costs. The preparers noted that U.S. GAAP 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.

BC13. Life insurance companies also identified an issue in accounting 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 actual and estimated 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 requires 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 separately reported.

BC14. Preparers from life insurance companies also raised a related concern with 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 requires 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.

BC15. 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. They also noted that it was not clear that the requirements in Update 2011-05 would require an entity to identify both the reclassifications to the deferred acquisition cost balance sheet account and the amount that subsequently is amortized to net income. Specifically, determining the amount that is reported as reclassified out of other comprehensive income and is recorded to net income is complicated when the estimates used to initially record the adjustment to 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 interim adjustments to their financial reporting information systems at this time.

BC16. Preparers also requested that the Board 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 about reclassifications out of accumulated other comprehensive income and appear to be comfortable with the presentation of reclassification information in

the notes to the financial statements. 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 where net income is presented. 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.

Outreach with Users

BC17. The Board received mixed feedback from users when asked if it is necessary to have the effect of items reclassified out of accumulated other comprehensive income on net income presented on the face of the financial statements. Generally, most users agree 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. Additionally, a majority of users said that presenting this information on the face of the financial statements would give undue prominence to these items.

BC18. Most users explained that current disclosure requirements for cash flow hedges, foreign currency translation adjustments, and available-for-sale securities provide sufficient information about 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.

B19. Users from large institutional firms and rating agencies said that a single note compiling currently disclosed information about items reclassified out of accumulated other comprehensive 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 all information about accumulated other comprehensive income reclassification items in one place.

BC20. 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) items from accumulated other comprehensive income to net income. In addition, some users noted that if reclassifications are presented on the face of the financial statements, the reclassification information could be available at the time earnings are released, rather than when financial statements are later filed with the Securities and Exchange Commission.

BC21. One user group that represents both institutional investors and other financial statements users noted that many users do not ask questions about reclassifications out of accumulated other comprehensive income because they are unaware that those items may have a significant effect on net income and because they do not have a complete understanding about the items that go into other comprehensive income in general. This user group felt strongly that many analysts are unaware of the pervasive effect that reclassification items 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.

BC22. 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.

BC23. 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.

Proposed Disclosures

BC24. The Board decided 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.

BC25. As an alternative, the Board decided that user needs for information about items reclassified out of accumulated other comprehensive income and their corresponding effect on net income could be aided, 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 items reclassified from accumulated other comprehensive income on the line items of net income, for those items required by U.S. GAAP to be reclassified to net income in their entirety. However, for other reclassification items 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.

BC26. The Board has asked the staff to conduct an analysis of current issues in the guidance on accounting for postretirement benefits and to develop a recommendation as to whether the Board should undertake a future project to improve financial reporting in this area. The Board also recognizes that potential changes may occur as a result of the ongoing project on insurance accounting.

Benefits and Costs

BC27. 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.

BC28. 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. 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.

BC29. Some users said that the proposed requirements would be beneficial because it would simplify their analysis of accumulated other comprehensive

income and other comprehensive income. These users generally do not have the resources and systems that are available to larger, institutional investors and, therefore, a single, tabular disclosure would be helpful to them.

BC30. The Board considered the costs that would be incurred if significant changes are made to the accounting for insurance and accounting for postretirement benefits. The Board has concerns about requiring preparers to incur significant costs to implement changes to presentation at this time when the underlying accounting requirements may undergo significant change and require additional changes to the related disclosures about reclassifications out of accumulated other comprehensive income. Therefore, while the proposed amendments in this Update would require preparers to present information in a new format, they would not require information that is not currently required by other accounting standards.

BC31. Representatives of nonpublic entities did not raise significant concerns about the cost to gather the information required to comply with the proposed Update. However, the Board noted its intent to consider nonpublic entity input further, particularly when it considers the effective date and transition requirements when this proposed Update is being finalized.

Amendments to the XBRL Taxonomy

The FASB will expose for public comment the proposed changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that would be required were the provisions of this Exposure Draft finalized as proposed. The proposed changes to the UGT will be available on the FASB website on or about September 17, 2012.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its *Action Alert* email service.