

Heads Up

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FASB Issues Proposed Guidance on Presentation of Comprehensive Income

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The FASB's and the IASB's continued deliberations in their far-reaching joint project on financial statement presentation have not held up the release of new guidance related to the topic. In fact, just yesterday both boards issued exposure drafts on the narrower topic of the presentation of comprehensive income. The FASB's [proposed ASU](#)¹ would amend ASC 220² (formerly Statement 130³) by requiring all components of comprehensive income to be reported in a continuous financial statement.

Entities Affected

The proposed ASU applies to all entities that provide a full set of financial statements that report financial position, results of operations, and cash flows. In addition, investment companies, defined benefit pension plans, and other employee benefit plans that are exempt from the requirements to provide a statement of cash flows would be within the scope of the new guidance. The proposed amendments will not affect entities that have no other comprehensive income in any period presented or not-for-profit entities that are required to follow the guidance in ASC 958-205.⁴

Reasons for Changes

Under current U.S. GAAP and IFRSs, preparers have several alternatives for displaying other comprehensive income and its components in the financial statements. The proposed ASU would eliminate these choices and require entities to present comprehensive income in one continuous financial statement that displays net income and the components of other comprehensive income. The FASB and IASB indicated that the presentation of one continuous statement would improve comparability, consistency, and transparency in financial reporting. In addition, a continuous presentation would make it easier for users to understand the relationship between movements in the statement of financial position, items in other comprehensive income, and items of net income or loss for each period.

The Proposed Changes

Under the proposed ASU, an entity would do the following:

1. Report comprehensive income and its components in a continuous financial statement (which must be displayed as prominently as other full sets of financial statements) in two sections: (a) net income and (b) other comprehensive income.

¹ Proposed FASB Accounting Standards Update (ASU), *Statement of Comprehensive Income*.

² FASB Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*.

³ FASB Statement No. 130, *Reporting Comprehensive Income*.

⁴ FASB Accounting Standards Codification Subtopic 958-205, *Presentation of Financial Statements*.

2. Display a total for each section of net income and other comprehensive income.
3. Display each component of net income and each component of other comprehensive income in the financial statement.

The proposed ASU does not change the items that must be reported in other comprehensive income, nor does it change the option for a preparer to show components of comprehensive income net of the effect of income taxes as long as the preparer shows the tax effect for each component in the notes to the financial statement or on the face of the statement of comprehensive income.

Convergence With IFRSs

The presentation alternatives offered under IFRSs for how and where certain components of comprehensive income are reported are similar to those offered under the proposed ASU. The FASB and IASB worked together on the proposed amendments, and if the ASU is finalized, presentation of a continuous statement of comprehensive income would be similar under U.S. GAAP and IFRSs. However, the proposed amendments would not affect the differences that currently exist between U.S. GAAP and IFRSs in connection with the specific components of other comprehensive income and reclassification requirements (e.g., the guidance on pensions and financial instruments is not currently converged).

Disclosures and Effective Date

The FASB plans to align the ASU's effective date with that in its [proposed ASU on financial instruments](#) (also issued May 26). Early adoption would be permitted, and the guidance would be applied retrospectively for all periods presented. Further, the final ASU would not require any incremental disclosures in addition to those already required under ASC 250.⁵

Next Steps

Comments on the proposed ASU are due by September 30, 2010. After that date, the FASB will redeliberate the proposed guidance. The Board expects to issue a final ASU in the first half of 2011.

The proposed ASU does not change the items that must be reported in other comprehensive income.

⁵ FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

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