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The ASU is intended to help entities improve the transparency of changes in OCI and items reclassified out of AOCI in their financial statements.

## (Re)class Is Out

# FASB Finalizes New Disclosure Requirements for Reclassification Adjustments Out of AOCI

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### Introduction

On February 5, 2013, the FASB issued [ASU 2013-02](#),<sup>1</sup> which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). The ASU is intended to help entities improve the transparency of changes in other comprehensive income (OCI) and items reclassified out of AOCI in their financial statements. It does not amend any existing requirements for reporting net income or OCI in the financial statements. Both public and nonpublic entities that report items of OCI are affected by the ASU (however, the interim disclosure requirements and effective date differ depending on whether an entity is public or nonpublic).

**Editor's Note:** The ASU is another step in the FASB's project to improve the presentation of reclassification adjustments. The process began when the Board issued ASU 2011-05,<sup>2</sup> which revised the manner in which entities present comprehensive income in their financial statements (see Deloitte's June 17, 2011, [Heads Up](#) for further information). That ASU would have required an entity to present reclassification adjustments out of AOCI by component in both the statement in which net income is presented and the statement in which OCI is presented. However, constituents raised concerns about whether the presentation requirements under ASU 2011-05 were operational for reclassification adjustments on the face of the financial statements, and the FASB subsequently issued ASU 2011-12<sup>3</sup> to indefinitely defer those requirements to allow the Board to redeliberate the topic. See Deloitte's December 23, 2011, [Heads Up](#) for additional details. Ultimately, the Board chose not to reinstate the reclassification adjustment requirements in ASU 2011-05 but rather to issue ASU 2013-02.

### Overview of the Proposals

ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI.

<sup>1</sup> FASB Accounting Standards Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*.

<sup>2</sup> FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*.

<sup>3</sup> FASB Accounting Standards Update No. 2011-12, *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*.

ASU 2013-02 requires an entity to present information about significant items reclassified out of AOCI by component either (1) on “the face of the statement where net income is presented” or (2) as “a separate disclosure in the notes to the financial statements.”

## Changes in AOCI Balances by Component

The ASU expands the disclosure requirements in ASC 220<sup>4</sup> for presentation of changes in AOCI. An entity would disaggregate the total change of each component of OCI (e.g., unrealized gains or losses on available-for-sale securities or foreign currency items) and separately present (1) reclassification adjustments and (2) current-period OCI. Under the ASU, both before-tax and net-of-tax presentations of the information are acceptable as long as an entity presents the income tax benefit or expense attributed to each component of OCI and reclassification adjustments in either the financial statement or the notes to the financial statements as required by ASC 220-10-45-12. [Appendix A](#) of this *Heads Up* illustrates how an entity may present changes in AOCI by component.

## Significant Items Reclassified Out of AOCI

ASU 2013-02 requires an entity to present information about significant items reclassified out of AOCI by component either (1) on “the face of the statement where net income is presented” or (2) as “a separate disclosure in the notes to the financial statements.”

If an entity elects to present information on the face of the financial statement where net income is presented, it would include the reclassification before-tax amount in parentheses on the line item affected. The aggregate tax amount attributed to the significant reclassification adjustments included on the face of the financial statement would be presented parenthetically on the income tax expense (benefit) line. If an entity is unable to determine (1) the income statement line item affected or (2) whether, “when all reclassifications for the period are not to net income in their entirety,” it must follow the disclosure requirements in ASC 220-10-45-17B (added by the ASU) for presentation in the footnotes.

An entity that does not present information on the face of the financial statements must, for its significant items reclassified to net income in their entirety in the same reporting period, separately disclose in a footnote (1) the amount reclassified and (2) the individual income statement line items affected. The total of the reclassification adjustments by component must be the same as the total presented in the changes in AOCI information. Either before-tax or net-of-tax presentation is acceptable. However, for significant partial reclassifications, an entity would refer to the footnote disclosure that contains information about the impact of the reclassifications. The ASU does not amend guidance on determining which components of AOCI are reclassified partially and which are reclassified entirely.

[Appendix B](#) of this *Heads Up* contains examples of these disclosures.

**Editor’s Note:** The ASU does not require entities to use a particular format for presenting the required information. Such information may be presented on the face of the financial statements or disclosed in notes to the financial statements in either a tabular or descriptive format. We encourage preparers to evaluate the extent to which they have significant reclassification adjustments out of AOCI to determine which presentation would be most suitable for their financial statement users. Entities that have few reclassification items may elect not to present the information in a tabular format in the footnotes but rather to describe the information or present it on the face of the financial statement where income is included.

<sup>4</sup> FASB Accounting Standards Codification Topic 220, *Comprehensive Income*.

For public entities, the new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012.

## Interim-Period Reporting

The ASU does not change the current requirements under U.S. GAAP for interim financial statement reporting of comprehensive income for either public or nonpublic entities. That is, a total for comprehensive income must be reported in condensed interim financial statements in either (1) a single continuous statement or (2) two separate but consecutive statements. However, public entities would also need to include information about (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI in their interim reporting periods. Under the ASU, nonpublic entities are not required to disclose information about significant items reclassified out of AOCI but must comply with the other disclosure requirements for interim financial reporting.

**Editor's Note:** While the ASU includes interim disclosure requirements, the FASB elected not to provide guidance on the extent of such disclosures or the level of detail they should contain. Instead, paragraph BC35 of the ASU's Basis for Conclusions recommends that public entities refer to the SEC's condensed financial statement requirements for guidance on the extent and materiality considerations related to preparing disclosures for reclassification adjustments within interim financial reports.

## Effective Date and Transition

For public entities, the new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. However, for nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2013, and interim and annual periods thereafter. Early adoption is permitted. The amendments in the ASU should be applied prospectively.

## Appendix A — Changes in AOCI by Component

The examples below are adapted from ASC 220-10-55-15 and 55-15A (added by the ASU).

<b>Entity XYZ</b> <b>Notes to Financial Statements</b> <b>Changes in Accumulated Other Comprehensive Income by Component<sup>(a)</sup></b> <b>For the Period Ended December 31, 201X</b>					
	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 <sup>(b)</sup>	(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	\$ 1,050	\$ 2,000	\$ (7,300)	\$ 2,300	\$ (1,950)
(a) All amounts are net of tax. Amounts in parentheses indicate debits.					
(b) See the separate table in ASC 220-10-55-17E for details about these reclassifications.					

<b>Entity ABC</b> <b>Notes to Financial Statements</b> <b>Changes in Accumulated Other Comprehensive Income by Component<sup>(a)</sup></b> <b>For the Period Ended December 31, 201X</b>			
	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 <sup>(b)</sup>	(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.			
(b) See the separate table in ASC 220-10-55-17F for details about these reclassifications.			

## Appendix B — Reclassifications Out of AOCI

The example below is reproduced from ASC 220-10-55-17E (added by the ASU).

Entity XYZ Notes to Financial Statements Reclassifications Out of Accumulated Other Comprehensive Income <sup>(a)</sup> 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	<u>(2,000)</u>	Cost of sales
	1,000	Total before tax
	<u>(250)</u>	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	<u>(15)</u>	
	2,000	Total before tax
	<u>(500)</u>	Tax (expense) or benefit
	<u>\$ 1,500</u>	Net of tax
Amortization of defined benefit pension items		
Prior-service costs	\$ (2,000) <sup>(b)</sup>	
Transition obligation	(2,500) <sup>(b)</sup>	
Actuarial gains/(losses)	<u>(1,500) <sup>(b)</sup></u>	
	(6,000)	Total before tax
	<u>1,500</u>	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).		

The example below is reproduced from ASC 220-10-55-17F (added by the ASU).

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>

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