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FASB Issues Final Answer on Fair Value

The Financial Accounting Standards Board has published the "final" versions of its three controversial FASB Staff Positions to improve guidance and disclosures on fair value measurements.

FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, "Fair Value Measurements."

FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

"The issuance of these final FSPs follows a period of intensive and extensive efforts by the FASB to gather input on our proposed guidance," said FASB Chairman Robert H. Herz in a statement.

He noted that FASB had received over 600 written comment letters, along with many e-mails, and held face-to-face meetings and other discussions "with a broad range of affected constituents."

FASB was under pressure to revise fair value and mark-to-market accounting standards from banking interests and Congress. At a House subcommittee hearing, Herz was pressed by lawmakers to relax the standards for how financial institutions could value illiquid assets such as mortgage-backed securities that don't have an active trading market, or face congressional action.

"Our careful consideration of the input resulted in some changes in the final documents from the guidance first proposed," he noted. "The changes include a number of new disclosures relating to the determinations of fair value and to estimated credit losses and credit exposures. Virtually all of the investors providing input expressed the need for greater transparency by banks. Taken together, these three new documents require significantly expanded and enhanced disclosures."

FSP FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what Statement 157 states is the objective of fair value measurement - to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current

market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. (For the complete FSB refer http://www.fasb.org/pdf/fsp_fas157-4.pdf)

FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. (For the complete FSB refer http://www.fasb.org/pdf/fsp_fas107-1andapb28-1.pdf)

FSP FAS 115-2 and FAS 124-2 on other-than-temporary impairments is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains fair value. The FSP also requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and aging of securities with unrealized losses. (For the complete FSB refer http://www.fasb.org/pdf/fsp_fas115-2andfas124-2.pdf)

The FSPs are effective for interim and annual periods ending after June 15, 2009, but entities may adopt them early for the interim and annual periods ending after March 15, 2009. Beyond these near-term actions, the FASB also has a joint project with the International Accounting Standards Board aimed at more broadly revamping and converging their respective standards on accounting for financial instruments.

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