

MEMO# 22964

October 6, 2008

FASB Proposes FAS 157 Guidance; Conference Call October 8

[22964]

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TO: ACCOUNTING POLICY SUBCOMMITTEE No. 3-08 RE: FASB PROPOSES FAS 157
GUIDANCE; CONFERENCE CALL OCTOBER 8

The Financial Accounting Standards Board has issued a proposed FASB Staff Position (FSP) to provide guidance on how to determine the fair value of financial assets in inactive markets. [\[1\]](#) The proposed FSP elaborates on some of the clarifications on fair value measurements discussed in the press release issued jointly by the SEC and the FASB on September 30. [\[2\]](#) The FSP includes an example of how to determine the fair value of a fixed-income security when markets for the security are inactive.

We have scheduled a conference call for Wednesday, October 8 at 11:00 am eastern to discuss the proposed FSP and consider whether the Institute should file a comment letter. The dial-in number is 888-390-0678 and the pass code is 37537.

The FSP does not change existing fair value measurement principles within FAS 157. For example, the objective of fair value measurement continues to be the price at which a transaction would occur between market participants at the measurement date. The FSP is intended to clarify the application of FAS 157 to markets that are inactive.

The example included in the FSP is intended to address the following fair value measurement issues:

- How management's internal assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable data do not exist;

- How observable market information in a market that is not active should be considered when measuring fair value; and
- How the use of market quotes (for example broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable data available to measure fair value.

Comments on the FSP are due to the FASB by October 9, 2008. The FASB has scheduled a meeting on October 10 at which it intends to review comments received and finalize the FSP. The FSP will be effective upon issuance, and will apply to prior periods for which financial statements have not yet been issued.

Gregory M. Smith
Director - Operations/Compliance & Fund Accounting

endnotes

[1] FSP No. 157-d, Determining the Fair Value of a Financial Asset in a Market That Is Not Active is available on the FASB website at

http://www.fasb.org/fasb_staff_positions/prop_fsp_fas157-d.pdf.

[2] See Memorandum dated October 1, 2008 to Accounting/Treasurers Members No. 23-08 [22945].

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