

MEMO# 23330

March 18, 2009

FASB Proposes Near-Term Additions to Application Guidance Regarding Fair Value Measurements and Impairments of Securities

[23330]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 5-09
SEC RULES COMMITTEE No. 13-09 RE: FASB PROPOSES NEAR-TERM ADDITIONS TO APPLICATION GUIDANCE REGARDING FAIR VALUE MEASUREMENTS AND IMPAIRMENTS OF SECURITIES

The Financial Accounting Standards Board acted yesterday to propose near-term additions to application guidance regarding fair value measurements and impairments of securities in the form of two proposed FASB Staff Positions (FSPs). Proposed FSP FAS 157-e, Determining Whether a Market is Not Active and a Transaction is Not Distressed, [\[1\]](#) provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements. Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments, [\[2\]](#) provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

Statement 157 provides a framework for measuring fair value and a definition of fair value that contemplates an orderly transaction between market participants, not a forced or distressed sale. In the current economic crisis, the FASB has received urgent requests from constituents for additional authoritative guidance to assist in the determination of whether a market is active or inactive, and whether a transaction is distressed. Proposed FSP FAS 157-e would provide this application guidance.

Proposed FSP FAS 115-a, 124-a, and EITF 99-20-b on other-than-temporary impairments (OTTI) is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. As proposed, the FSP would apply to both debt and equity securities. The proposed FSP requires separate display of losses related to credit deterioration and losses related to other market factors on the income statement. Market-related losses would be recorded in other comprehensive income if it is not likely that the investor will have to sell the security prior to recovery.

If approved, both FSPs would be effective for interim and annual periods ending after March 15, 2009. Comments on the FSPs are due to FASB by April 1, 2009. Please provide any comments on these FSPs to Greg Smith (smith@ici.org or 202/326-5851) by March 26, 2009. The FASB has scheduled a Board meeting on April 2 to evaluate all comment letters and other input received on the FSPs.

Donald J. Boteler
Vice President - Operations

endnotes

[1] FSP FAS 157-e, Determining Whether a Market is Not Active and a Transaction is Not Distressed is available on the FASB website at http://www.fasb.org/fasb_staff_positions/prop_fsp_fas157-e.pdf.

[2] FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments is available on the FASB website at http://www.fasb.org/fasb_staff_positions/prop_fsp_fas115-a_fas124-a_and_eitf99-20-b.pdf.

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