RESCINDED

fi of Th ift Sup rvision
epa ment of the as ry
1 G Street, N.W., ngton, D 0552 • (202) 06-56

nothy T. Ward
Dep re , Exam atio Supervisio and Co umer Protection

This document and any attachments are superseded by OCC 2009-11.

May 14, 2009

MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS

FROM: Timothy T. Ward, Deputy Director
Examinations, Supervision, and Consumer Protection

SUBJECT: New FASB Guidance on Other-than-Temporary Impairment

PURPOSE

This bulletin alerts institutions and examiners to new other-than-temporary impairment (OTTI) accounting guidance for debt securities issued by the Financial Accounting Standards Board (FASB) on April 9, 2009.

ACCOUNTING UPDATE

On April 9, 2009, the FASB released FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). FSP FAS 115-2 amends U.S. generally accepted accounting principles (GAAP) for available-for-sale and held-to-maturity *debt* securities. It does not amend existing recognition and measurement guidance related to OTTI of *equity* securities. It also improves the presentation and disclosure of OTTI for debt and equity securities in the financial statements.

The FASB on April 9, 2009, also issued 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,* and FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*.

FSP FAS 115-2 Debt securities

The following text highlights certain amendments and is not intended to be a comprehensive summary. The complete guidance is available at http://www.fasb.org/st/#fsp.

Under FSP FAS 115-2, an impairment[1] for debt securities, in certain circumstances, is separated into the credit loss amount recognized in earnings and the amount related to all other factors (**non-credit loss**) recognized in other comprehensive income, net of applicable taxes. Under FSP FAS 115-2:

- If (1) an institution intends to sell the debt security, *or* (2) it is "more likely than not" that it will be required to sell the security before recovery of its amortized cost basis[2] (less any current-period credit loss), OTTI equal to the entire difference between the security's amortized cost basis and its fair value shall be recognized in earnings.

[1] Impairment is the amount by which the fair value of the security is less than its amortized cost basis.
[2] Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, previous other-than-temporary impairments recognized in earnings (less any cumulative-effect adjustments recognized in accordance with the transition provisions of FSP FAS 115-2), and fair value hedge accounting adjustments.

- If, however, (1) an institution does not intend to sell the debt security, and (2) it is *not* "more likely than not" that the institution will be required to sell the security before recovery of its amortized cost basis (less any current-period credit loss), and (3) it does not expect to recover the entire amortized cost basis, the OTTI shall be separated and recognized as follows:

  a. The credit loss amount shall be recognized in earnings.

  b. The non-credit loss shall be recognized in other comprehensive income (OCI), net of applicable taxes.

RESCINDED

The difference between the present value of the cash flows expected to be collected and the amortized cost basis is referred to as the credit loss. One way of estimating the credit loss amount is to use the methodology[3] described in paragraphs 12 – 16 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (**FAS 114**). Under a FAS 114 methodology an institution discounts the cash flows management expects to collect at the effective interest rate implicit in the debt security at the date of acquisition. If the discounted amount is less than the debt security's amortized cost basis, the difference represents the credit loss amount to be recognized through earnings.

Effective date and transition

FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009. That is the TFR for the quarter ended June 30, 2009. Institutions may early adopt for periods ending after March 15, 2009. That is the TFR for the quarter ended March 31, 2009. If an institution early adopts FSP FAS 115-2, it is also required to adopt early 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.*

The transition provisions require the institution to recognize the cumulative effect of initially applying FSP FAS 115-2 as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income (**AOCI**). In other words, previous loss recognition of a non-credit component of impairment is reclassified from retained earnings to AOCI. The adjustment shall be calculated in accordance with paragraph 45 of FSP FAS 115-2.

REGULATORY CAPITAL

The regulatory capital treatment of losses on debt securities has *not* changed. Note that the new accounting guidance may result in a different amount of non-credit losses on available-for-sale and held-to-maturity debt securities being recognized in OCI instead of earnings. These non-credit losses in AOCI will be added back as part of unrealized losses in determining Tier 1 capital on TFR Schedule CCR.

RESPONSIBILITIES OF MANAGEMENT

Each quarter management is responsible for ensuring that each security's fair value is measured consistent with GAAP and also documenting whether impairment is temporary or other-than-temporary.

---

[3] Paragraph 24 of FSP FAS 115-2 describes the methodology for debt securities within the scope of EITF Issue 99-20.