

SECURITIES AND EXCHANGE COMMISSION

17 CFR Part 211

[Release No. SAB 111]

Staff Accounting Bulletin No. 111

AGENCY: Securities and Exchange Commission.

ACTION: Publication of Staff Accounting Bulletin.

SUMMARY: This staff accounting bulletin (“SAB”) amends Topic 5.M. in the Staff Accounting Bulletin Series entitled Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (“Topic 5.M.”). On April 9, 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (“FSP 115-2”) to provide guidance for assessing whether an impairment of a debt security is other than temporary. This SAB maintains the staff’s previous views related to equity securities. It also amends Topic 5.M. to exclude debt securities from its scope.

DATES: April 13, 2009.

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SUPPLEMENTARY INFORMATION: The statements in staff accounting bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval. They represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws.

Elizabeth M. Murphy
Secretary

Date: April 13, 2009

Part 211 – [AMENDED]

Accordingly, Part 211 of Title 17 of the Code of Federal Regulations is amended by adding Staff Accounting Bulletin No. 111 to the table found in Subpart B.

STAFF ACCOUNTING BULLETIN NO. 111

This staff accounting bulletin (“SAB”) hereby amends and replaces Topic 5.M. in the Staff Accounting Bulletin Series entitled Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities (“Topic 5.M.”). On April 9, 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (“FSP 115-2”) to provide guidance for assessing whether an impairment of a debt security is other than temporary. Topic 5.M. (as amended) maintains the staff’s previous views related to equity securities. It also amends Topic 5.M. to exclude debt securities from its scope.

Note: The text of SAB 111 will not appear in the Code of Federal Regulations.

TOPIC 5: MISCELLANEOUS ACCOUNTING

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M. Other Than Temporary Impairment of Certain Investments in Equity Securities

Facts: FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (“FSP 115-2”) does not define the phrase “other than temporary” for available-for-sale equity securities. For its available-for-sale equity securities, Company A has interpreted “other than temporary” to mean permanent impairment. Therefore, because Company A's management has not been able to determine that its investment in Company B's equity securities is permanently impaired, no realized loss has been recognized even though the market price of Company B's equity securities is currently less than one-third of Company A's average acquisition price.

Question: For equity securities classified as available-for-sale, does the staff believe that the phrase “other than temporary” should be interpreted to mean “permanent”?

Interpretive Response: No. The staff believes that the FASB consciously chose the phrase “other than temporary” because it did not intend that the test be “permanent impairment,” as has been used elsewhere in accounting practice.¹²

The value of investments in equity securities classified as available-for-sale may decline for various reasons. The market price may be affected by general market conditions which reflect prospects for the economy as a whole or by specific information pertaining to an industry or an individual company. Such declines require further investigation by management. Acting upon the premise that a write-down may be required, management should consider all available evidence to evaluate the realizable value of its investment in equity securities classified as available-for-sale.

¹² FASB Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments refers to this SAB for a discussion of considerations applicable to a determination as to whether a decline in market value below cost of an equity security, at a particular point in time, is other than temporary.

There are numerous factors to be considered in such an evaluation and their relative significance will vary from case to case. The staff believes that the following are only a few examples of the factors which, individually or in combination, indicate that a decline in value of an equity security classified as available-for-sale is other than temporary and that a write-down of the carrying value is required:

- a. The length of the time and the extent to which the market value has been less than cost;
- b. The financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; or
- c. The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Unless evidence exists to support a realizable value equal to or greater than the carrying value of the investment in equity securities classified as available-for-sale, a write-down to fair value accounted for as a realized loss should be recorded. Such loss should be recognized in the determination of net income of the period in which it occurs and the written down value of the investment in the company becomes the new cost basis of the investment.