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Financial Institutions Update

June 5, 2009 Accounting, Reporting, and Regulatory Issues for Financial Institutions

Fair Value and Impairment Charges: A Guide to Navigating the FASB's Changes

The Financial Accounting Standards Board (FASB) made changes for measuring and disclosing fair value and for recognizing and presenting other-than-temporary impairment (OTTI) charges with the issuance on April 9 of three FASB Staff Positions (FSPs). The first FSP amends FASB Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (FAS 157 or Statement 157) to provide additional guidance for estimating fair value when there has been a significant decrease in volume and level of activity when compared with normal market activity for the financial instrument or similar instruments. The second FSP amends the OTTI guidance for debt securities. The third FSP requires more frequent disclosures of fair value information for public companies.

While some financial institutions have chosen to early adopt the first and second FSPs, the majority are waiting to adopt the FSPs in the second quarter of the calendar year.

FSP to Change FAS 157: Determining Fair Value

The Final FSP

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 guidance on determining when the volume and level of activity for an asset or liability have significantly decreased as well as when a transaction is not considered orderly. Both are key points because those decisions will affect whether a price quotation or observed transaction price should be adjusted.

The FASB emphasizes that FSP FAS 157-4 does not change the objective of a fair value measurement, even when market activity for the asset has decreased significantly. Fair value is the price that would be received for an asset sold in an orderly transaction – not a forced liquidation or distressed sale – between market participants at the measurement date under current market conditions. In other words, it does not change the fair value definition to be fair value in an active market. Paragraph 15 of FSP 157-4 reiterates Statement 157's objective of fair value measurement: "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions."

FSP FAS 157-4 stresses the use judgment when determining whether a formerly active market has become inactive and when determining fair values in such markets. When determining fair value, an entity's intention to hold the asset or

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liability is not relevant because under FAS 157, fair value is a market-based measurement, not an entity-specific measurement.

A fair value measurement should include a risk premium reflecting the amount market participants would demand because of uncertainty in cash flows; otherwise, the measurement would not faithfully represent fair value. The FASB acknowledges that determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk adjustment.

The Proposed FSP

The proposed FSP FAS 157-e, "Determining Whether a Market Is Not Active and a Transaction Is Not Distressed," included a two-step model. The first step determined whether factors exist that indicate that a market for an asset is not active. If step one resulted in the conclusion that there is not an active market, step two evaluated whether the quoted price (a recent transaction or broker quotation) is not associated with a distressed transaction.

The proposed FSP FAS 157-e also included a presumption that a quoted price from a market that is not active is a distressed transaction unless there is evidence otherwise. The FASB retained the two-step approach but removed from the final FSP the presumption that all transactions are distressed unless proved otherwise.

The Framework

The final FSP FAS 157-4 provides the following two-step process:

Step One: Evaluate the Market

The first step is to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity. One change from the proposed FSP is the use of the term "inactive market." The final FSP does not use the term "inactive market" because that suggests there is no market activity rather than decreased market activity. Factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity in relation to normal market activity include, but are not limited to:

- Few recent transactions;
- Price quotations not based on current information;
- Price quotations that vary substantially (either over time or between market makers);
- A demonstrable change in correlation, that was previously highly correlated, between indexes and recent indications of fair values;
- A significant increase in implied liquidity risk premiums;
- A wide or significant increase in the bid-ask spread;

- A significant decline for new issuances of the financial instrument or similar financial instruments; and
- A lack of publicly available information.

If the factors are present, then transactions or quoted prices may not be determinative of fair value. If the entity concludes there is a significant decrease in the volume and level of activity when compared with normal market activity, move to step two to evaluate the transactions.

If the above or other relevant factors are not present, then the prices obtained are indicative of fair value and should be used, without adjustment, to determine fair value.

Step Two: Evaluate the Transactions

Even if there has been a significant decrease in the volume and level of activity for the asset or liability, it is not appropriate to conclude that all transactions are not orderly (that is, distressed or forced). An orderly transaction is a transaction that is neither a forced liquidation nor a distressed sale. Some circumstances that might indicate that a transaction is not orderly:

- There was not adequate exposure to the market to allow for marketing activities that are usual and customary.
- There was a usual and customary marketing period, but the seller marketed to a single market participant.
- The seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced).
- The transaction price is an outlier compared to other recent transactions.

An entity should conclude whether a transaction is orderly based on the weight of the evidence. Quoted prices that are not representative of an orderly transaction are not solely determinative of fair value. When estimating fair value, more weight should be placed on transactions that are orderly, and less weight should be placed on transactions for which there is insufficient information to conclude whether they are orderly.

An entity need not undertake all possible efforts to determine whether a transaction is orderly; but on the other hand, an entity should not ignore information that is available without undue cost and effort.

Disclosures

In the period of adoption, entities should disclose a change in valuation technique and related inputs resulting from the application of the FSP and quantify the total effect of the change in valuation technique and related inputs, if practicable, by major category.

This FSP requires additional disclosures, both on an interim and annual basis, of inputs and valuation techniques used to determine fair value as well as changes to inputs and techniques. It also amends the FAS 157 disclosures to require detail within the trading, available for sale (AFS), and held to maturity (HTM) categories. As amended, FAS 157 defines major security types to be consistent with FAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

As noted in FSP FAS 157-4, paragraph 20b, to comply with this requirement, financial institutions should include in their disclosure the following major security types, though additional types might be necessary:

- Equity securities (segregated by industry type, company size, or investment objective);
- Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies;
- Debt securities issued by states of the United States and political subdivisions of the states;
- Debt securities issued by foreign governments;
- Corporate debt securities;
- Residential mortgage-backed securities;
- Commercial mortgage-backed securities;
- Collateralized debt obligations;
- Other debt obligations.

Transition

Revisions resulting from a change in the valuation technique or its application will be accounted for as a change in accounting estimate in accordance with paragraph 19 of Statement 154, "Accounting Changes and Error Corrections."

FSP to Change FAS 115: Evaluation of Impairment

The Final FSP

The primary objectives of the second FSP, FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-than-temporary Impairments," are to make the OTTI guidance for debt securities more operational and to improve the presentation and disclosure in financial statements. In addition, this FSP more closely aligns the recognition of impairment for debt securities with that of loans.

While many debt securities follow the provisions of FAS 115, there are some debt securities that are in the scope of Emerging Issues Task Force (EITF) 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," or the American Institute of Certified Public Accountants' Statement of Position (SOP) 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer."

EITF 99-20 may be applicable for entities holding beneficial interests, including investments such as collateralized mortgage obligations (CMOs) and collateralized debt obligations (CDOs). For many financial institutions, the most common investments affected are nonagency CMOs and trust preferred CDOs. Entities holding such investments should evaluate for application of EITF 99-20. Entities that have separately purchased, or as part of a business combination acquired, investment securities with evidence of credit deterioration present at acquisition[1] should follow SOP 03-3 for those debt securities.

FSP FAS 115-2 requires a re-evaluation of cash flows expected to be collected at each balance-sheet date – similar to the model used for EITF 99-20 and SOP 03-3 – for all debt securities for which OTTI has been recognized.

The Principal Changes

FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," makes two meaningful changes to existing practice. The first significant change to current practice relates to an entity's assertion regarding recovery of fair value declines. In the final FSP, the FASB changed the guidance to move from an assertion about "intent and ability to hold to recovery" to a "do not intend to sell" and "it is more likely than not that it will not be required to sell prior to recovery" assertion. Prior to this change, determining OTTI was based on whether an entity had the intent and ability to hold a security until recovery.

If an entity does not intend to sell the security and if it is more likely than not that it will not be required to sell the security before its anticipated recovery, then the entity should consider all available evidence to estimate the anticipated period over which the cost basis of the security is expected to recover. If the entity does not anticipate recovery of its cost basis, an OTTI should be considered to have occurred and the credit loss component should be recorded in the income statement.

The second change relates to measuring impairment in instances other than when an entity intends to sell or is more likely than not to be required to sell prior to recovery. Prior to the change, if an impairment was deemed to be other-than-temporary, the loss was recognized in earnings as the difference between the cost and fair value measured as of the balance sheet date. This difference encompassed all declines in fair value, which would have included credit as well as items such as changes in interest rates and market liquidity.

Equity Securities and Mutual Funds

The proposal included both debt and equity securities. However, many respondents cited operational issues and so the board decided the final FSP will apply only to debt securities. Equity securities continue to be evaluated under prior guidance.

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[1] For purposes of applying SOP 03-3, an entity should evaluate the security and determine whether there has been evidence of deterioration of credit quality since origination. The term "since origination" means deterioration of credit quality that has occurred subsequent to the original issuance of the security. It is not deterioration subsequent to an entity's acquisition of the security.

On April 13, 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111), which maintains the previous views related to equity securities. SAB 111 also amends SAB Topic 5.M.[2], "Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities," to exclude debt securities from its scope as well as change references to the revised guidance in FSP FAS 115-2.

The final FSP reiterates that entities should not "look through" the form of their investment to the nature of the securities held by the investee. For example, an investment in shares of a mutual fund that invests primarily in debt securities would be assessed for impairment as an equity security under this FSP. In other words, mutual funds will continue to be evaluated as equity securities.

While FSP FAS 115-2 is primarily focused on debt securities, it amends the disclosure requirement for both debt and equity securities.

The Framework

The final FSP retains the following basic three-step model as established by FSP FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments":

Step 1: Determine whether an investment is impaired.

An entity determines if the fair value of a debt security is less than its amortized cost. If fair value of the security is less than its amortized cost, the entity must determine if the impairment is OTTI. This step does not represent a change to the prior guidance.

Step 2: Determine whether the impairment is other-than-temporary.

There are three important changes to this step. First, the requirement to forecast a recovery of fair value has been replaced with a requirement to forecast recovery of cost basis, which is based on the best estimate of the present value of cash flows to be collected.

Second, the assertion on intent and ability to hold to recovery of fair value has been replaced with an assertion on the lack of intent to sell (or be required to sell prior to recovery of cost basis). For example, an entity could be required to sell due to cash or working capital requirements, or contractual or regulatory obligations.

Last, the FSP changes the recognition of impairment by removing the term "probable" and using the term "cash flows expected to be collected." With this change, the FASB is clarifying that an entity should not wait for an event of default or other actual shortfall of cash to conclude that some or all of the cash flows are not likely to be collected.

As a result of these changes, the following is the revised process for step 2:

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[2] Topic 5.M. originated with the issuance of SAB 59, "Views on Accounting for Noncurrent Marketable Equity Securities."

First, determine whether the entity intends to sell the security or it is more likely than not it will have to sell the security prior to recovery of its amortized cost basis less any current-period credit loss. If so, move to step 3; otherwise continue as follows.

Next, determine whether the entire amortized cost basis is expected to be recovered (that is, whether there is a credit loss). If the present value of the cash flows expected to be collected – discounted at effective interest rate at acquisition[3] – is less than the amortized cost basis, then there is a credit loss.

FSP FAS 115-2 also adds qualitative factors to consider when determining whether a credit loss exists and when estimating the recovery period. A few examples of such factors follow:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

When assessing whether an impairment is other-than-temporary, an entity should consider all available information relevant to how collectible the security is. When estimating cash flows expected to be collected, an entity should include information about past events, current conditions, and reasonable and supportable forecasts.

This requires a renewed focus on estimating cash flows. Under prior guidance, the OTTI assessment was largely qualitative-based because fair value was used instead of cash flows to determine the amount of the OTTI charge – although subsequent accounting used estimated cash flows to determine how much should be recognized as accretion income. However, depending on the fact pattern, some securities with impairment may have simply been placed on nonaccrual. Note that the FSP does not address when a debt security should be placed on nonaccrual status or how to subsequently report income on a nonaccrual debt security.

Under the new guidance, however, recognizing the unrealized loss attributable to credit and noncredit as separate components requires estimating cash flows. Depending on the nature of the security, the process for estimating cash flows expected to be collected can be quite complicated, as discussed below, particularly with securitized instruments such as CDOs and CMOs.

The objective in this second step is to determine whether there has been a credit loss. If the present value of the cash flows expected to be collected is less than the amortized cost basis, then there is a credit loss. An entity that determines

[3] For securities within the scope of EITF 99-20, the discount rate should be the current yield used and not the effective yield at acquisition.

that there is a credit loss should move to step 3 for recognition. Otherwise, the impairment is deemed to be temporary and no impairment charge is recorded in the income statement.

A Note on Estimating Cash Flows in a Securitization

Estimating cash flows in a securitization requires forecasting cash flows of all the assets in the securitization. This includes considering both the amount and timing of cash flows and requires evaluation of any and all relevant assumptions, such as:

- Remaining payment terms of the security;
- Prepayments;
- The financial condition of the issuer or issuers;
- Expected defaults;
- Value of any underlying collateral;
- Credit enhancements;
- Recoveries of current and expected defaults;
- Interest deferrals;
- Balloon payments and interest reset features;
- Effect of government regulatory oversight and programs; and
- Industry analysis reports and forecasts.

The use of dynamic assumptions over the remaining life of the security will result in more accurate forecasts than will static assumptions. For example, assuming default rates or collateral values will remain unchanged over the next 20 to 30 years is simply not realistic. Similarly, the past may not be the most relevant source when developing these assumptions.

Once cash flows have been forecast for the assets in the securitization, those cash flows will need to be assigned to each individual security tranche issued by that securitization. This process is known as a securitization waterfall. Understanding the assets in a securitization, developing assumptions about how those assets will perform, forecasting cash flows, and distributing those cash flow forecasts to each tranche through the securitization waterfall requires specialized skills and software that some entities are not equipped to perform. As a result, those entities will require the use of third-party consultants to perform these analyses and computations. Even with the use of third-party consultants, entities will need to carefully evaluate and accept the assumptions used to derive the resulting cash flow estimates.

Step 3: Recognize an impairment loss.

When an OTTI has occurred, the amount of impairment depends on whether an entity intends to sell the security, or if it is more likely than not that it will have to sell the security prior to recovery.

If the entity intends to sell the security or it is more likely than not it will have to sell the security prior to recovery of its amortized cost basis less any current-period credit loss, the entire impairment is recognized in earnings equal to the difference between the amortized cost basis and its fair value, which is consistent with prior guidance.

If a credit loss exists but the entity does not intend to sell (and it is not more likely than not that it will be required to sell before the anticipated recovery of its remaining amortized cost basis), the OTTI is separated as follows:

- The amount related to credit loss is recognized in earnings.
- The amount related to other matters is recognized in other comprehensive income.

Although the net charge to the income statement represents only the credit loss component, both the credit and noncredit components will be presented in the income statement. The total OTTI charge will be reduced by the amount recognized in other comprehensive income (OCI).

Example Income Statement Presentation

Total other-than-temporary impairment losses	($10,000)
Portion of loss recognized in OCI (before taxes)	4,000
Net impairment losses recognized in earnings	($6,000)

FSP FAS 115-2 provides that one way for an entity to measure the amount of credit loss is to measure impairment on the basis of the present value of expected future cash flows, as outlined in paragraphs 12-16 of FASB Statement 114, "Accounting by Creditors for Impairment of a Loan." Under the provisions of FAS 114, the expected cash flows are discounted at the effective interest rate implicit in the security at the date of acquisition. In other words, the rate used to calculate the present value of cash flows expected to be collected is the rate in effect before recognizing any OTTIs and not a rate that has been adjusted to reflect those impairments. The remainder of the impairment (those declines due to other factors such as liquidity and interest rates) would be recognized as part of OCI rather than as part of earnings. (See Appendix B for an illustration of this scenario.)

The following table summarizes the three key questions and conclusions for each fact pattern.

Does the entity intend to sell the security? (That is, has the entity decided to sell?)	Is it more likely than not that the entity will be required to sell the security prior to recovery of its amortized cost basis?	Will the entire amortized cost basis be recovered?	Conclusion
No	Yes	No [4]	Entire impairment is recognized as an OTTI in earnings.
Yes	N/A	No [4]	
No	No	No	Impairment charge is separated: 1. Amount representing the credit loss is charged to earnings. 2. Amount related to all other factors is charged to OCI.
No	No	Yes	Impairment is considered to be temporary.

HTM Debt Securities

Several comment letters submitted to the FASB suggested that for HTM debt securities, only credit losses should be recognized in the income statement, and the fair value should be disclosed in the notes to the financial statements. However, the FASB decided to require recognition of noncredit losses on HTM debt securities in OCI in order to present the carrying amount at fair value at impairment. Because the noncredit component is in OCI – and there is no accompanying FAS 115 adjustment to record the fair value – an entry must be recorded to accrete the discount at each subsequent balance sheet date. As a result, for HTM debt securities the charge is accreted from OCI to the amortized cost over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows. Note that this entry does not impact the income statement. To accommodate the new requirements, entities may want to establish new general ledger accounts. (See Appendix A for illustrative journal entries.)

[4] Because the entity has either a) decided to sell the security or b) it is more likely than not that the entity will be required to sell the security prior to recovery of its amortized cost basis, the entire amortized cost will not be recovered.

Subsequent Accounting for Debt Securities

For debt securities classified as AFS and HTM, the revised amortized cost basis of the security is equal to the previous amortized costs less the OTTI recognized in earnings. The difference between the new amortized cost basis and the cash flows expected to be collected are accreted in accordance with existing guidance as interest income. Under prior guidance, the entire impairment was accreted into net interest margin. Under FSP FAS 115-2, the accretion into net interest margin will be lower compared to prior guidance. (See Appendix A.) Subsequent changes in the fair value of AFS securities are accounted for in OCI.

The following illustrates the change in the amortized cost and subsequent recognition. For simplicity, the accrued interest receivable is not included.

- A $100,000 bond is purchased, for which the entire principal amount matures at the end of 10 years. The coupon is 6 percent, which is an interest payment of $6,000 paid annually. The purchase price was $95,800 to yield 6.5866 percent. Total undiscounted cash flows expected to be collected is $160,000. The security is classified as AFS.
- At the end of year three, there is OTTI. The revised cash flows expected to be collected are $85,000 of principal and revised interest payments of $5,000, which results in revised undiscounted cash flows expected to be collected of $120,000. The fair value is $70,000 and the present value of the revised cash flows expected to be collected, discounted at the effective yield, is $81,727.

Under the prior and the revised guidance, the present value of the cash flows expected to be collected was, and will continue to be, calculated. However, under the prior guidance, the accretable discount was higher because of the larger net OTTI charge recognized in earnings. Income was recognized based on a revised effective yield of 9.3067 percent. Under the revised guidance, the accretable discount is smaller because the net OTTI charge recognized in earnings is smaller. Income is recognized on the effective yield at acquisition, or 6.5866 percent.

In FSP FAS 115-2, the FASB acknowledges this change will result in an improvement for financial reporting because the amount recognized in net interest margin will be based solely on the amount accretable based on expected cash flows rather than accretable based on the difference between expected cash flows and the fair value. (This example is further illustrated in Appendix B.)

Prior Method

Par amount	$100,000
Discount	(3,207)
Amortized cost	96,793
Impairment	(26,293)
Amortized cost	**$70,500**
Par amount	$100,000
Discount – nonaccretable	(15,000)
Discount – accretable (9.3067%)	(14,500)
Amortized cost	70,500
FAS 115 adjustment	0
Carrying amount	**$70,500**
Carrying amount at the end of year 10, prior to principal receipt	$85,000

Revised Method

Par amount	$100,000
Discount	(3,207)
Amortized cost	96,793
Net impairment (credit losses)	(15,066)
Amortized cost	**$81,727**
Par amount	$100,000
Discount – nonaccretable	(15,000)
Discount – accretable (6.5866%)	(3,273)
Amortized cost	81,727
FAS 115 adjustment	(11,227)
Carrying amount	**$70,500**
Carrying amount at the end of Year 10, prior to principal receipt	$85,000

Subsequent Changes in Cash Flows

Subsequent decreases in the estimated cash flows would result in another test for impairment. In subsequent tests for impairment, the fair value would be compared to the amortized cost for purposes of measuring impairment. (This is illustrated in Appendix A.)

For subsequent increases in cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the change is accounted for as a prospective adjustment to the yield.

For debt securities within the scope of EITF 99-20, entities should refer to that guidance to account for changes in cash flows expected to be collected.

Disclosures (applicable to both debt and equity securities)

Where the components of accumulated OCI are presented in the financial statement, entities are required to present separately the amounts related to HTM and AFS for which a portion of an OTTI has been recognized in earnings.

Disclosures should include information for interim and annual periods that enable users to understand the types of AFS and HTM debt and equity securities held, including information about investments in an unrealized loss position for which an OTTI has or has not been recognized. In addition, for interim and annual periods, information should be disclosed that enables users of financial statements to understand the reasons that a portion of an OTTI of a debt security was not recognized in earnings, and the methodology and significant inputs used to calculate the portion of the total OTTI that was recognized in earnings.

FSP FAS 115-2 expands and increases the frequency of certain existing disclosures including those in FAS 115 and FSP FAS 115-1. The following table provides an overview of the general requirements. The new requirements, added by FSP 115-2, are noted in red.

	Interim	Annual	Periods in which an OTTI of a debt security is recognized and only the amount related to a credit loss is recognized in earnings
By major security type, financial institutions should include the following major security types, although additional types may still be necessary: • Equity securities **(segregated by industry type, company size, or investment objective)**; • Debt securities issued by the Treasury and other U.S. government corporations and agencies; • Debt securities issued by states and political subdivisions of the United States; • Debt securities issued by foreign governments; • Corporate debt securities; • **Residential** mortgage-backed securities; • **Commercial mortgage-backed securities**; • **Collateralized debt obligations**; and • Other debt obligations.	**X**	X	
By major security type, for AFS and HTM securities, the amortized cost basis.	**X**	**X**	
The disclosures required by FAS 115.	**X**	X	
By major security type, the disclosures required by FSP FAS 115-1. **These include debt securities for which a portion of an OTTI has been recognized in OCI.**	X	X	
By major security type, the methodology and significant inputs used to measure the amount of the credit loss.			**X**
Tabular roll-forward of the amount related to credit losses recognized in earnings.	**X**	**X**	

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Transition

FSP FAS 115-2 is applied to investments held as of the beginning of the period in which it is adopted. The cumulative effect (inclusive of tax effects) of the initial application is recognized as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated OCI. This adjustment is calculated by comparing the present value of the cash flows expected to be collected to the cost basis of the debt security. If a security had previously recognized OTTI, the cost basis of such security should be adjusted by the amount of the cumulative effect adjustment before taxes.

The transition adjustment applies to debt securities to which OTTI had been taken in the past and are still held in portfolio, regardless of when the prior-period impairment was recognized previously. An entity cannot elect to omit the cumulative effect adjustment, other than for reasons based on materiality.

The accompanying appendixes provide illustrative journal entries and an example for an AFS debt security.

FSP to Change FAS 107: Frequency of Disclosures for Public Companies

On Jan. 30, 2009, the FASB issued proposed FSP FAS 107-b and Accounting Principles Board (APB) 28-a, "Interim Disclosures About Fair Value of Financial Instruments," to require more frequent disclosures under FAS 107, "Disclosures About Fair Value of Financial Instruments." The proposal is largely in response to concerns expressed about the lack of fair value disclosures – particularly for loans – in interim financial statements. The FASB sought comment on the practicality of requiring these disclosures on an interim basis and the timing that would be necessary to create processes and controls in order to comply.

The FASB proceeded with issuing a final FSP to increase the frequency of disclosures about fair value of financial instruments. FSP FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments," requires additional qualitative (that is, the methods and significant assumptions used to estimate fair value) and quantitative disclosures for interim periods in addition to the existing annual requirement. The FSP applies only to public companies.

When initially adopted, this FSP does not require disclosures for earlier periods for comparative purposes. In periods after initial adoption, comparative disclosures are required only for periods that end after the FSP's initial adoption.

Effective Dates

All three of the FSPs discussed here – FSP FAS 157-4; FSP FAS 115-2 and FAS 124-2; and FSP FAS 107-1 and APB 28-1– are effective for interim and annual reporting periods ending after June 15, 2009. Early adoption is permitted, upon meeting certain qualifications, for periods ending after March 15, 2009. Earlier application to periods ending before March 15, 2009, is not permitted.

If an entity chose early adoption of the FSP to amend FAS 157, then the FSP to amend FAS 115 also had to be adopted. Likewise, if an entity chose early adoption of the FSP to amend FAS 115, the FSP to amend FAS 157 also had to be adopted. If an entity chose early adoption of the FSP to amend FAS 107, all three FSPs had to be adopted.

For entities that chose early adoption, the adjustment was made as of Jan. 1, 2009. For entities that did not choose early adoption, the adjustment is made as of April 1, 2009.

The FSPs are available, under 'FASB Staff Positions' at www.fasb.org/st.

PCAOB Developments

On April 21, 2009, the Public Company Accounting Oversight Board (PCAOB) issued Staff Audit Practice Alert No. 4, "Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-than-temporary Impairments," to inform public company auditors about potential implications of the FSPs recently issued by the FASB on reviews of interim financial information and annual audits. The practice alert specifically addresses the following topics: 1) reviews of interim financial information; 2) audits of financial statements, including integrated audits; 3) disclosures; and 4) auditor reporting considerations.

The practice alert reminds public company auditors that they should make inquiries of members of management who have responsibility for financial and accounting matters as part of a review of interim financial information. It also reminds auditors to determine whether any matters described in AU Section 380, "Communication With Audit Committees," such as significant changes in accounting policies, should be communicated.

Among other procedures, an auditor is required to obtain an understanding of the company's process for determining fair value measurements and disclosures when performing audit procedures related to fair value and OTTI. In addition, the auditor is responsible for determining whether the FSPs have been appropriately adopted and applied. Finally, the auditor is responsible for determining whether appropriate transition and recurring disclosures have been made.

The full text of the PCAOB practice alert can be found at:
www.pcaob.org/Standards/Staff_Questions_and_Answers/2009/04-21_APA_4.pdf

Contact Information

If you have any questions, please contact Sydney Garmong of Crowe Horwath LLP at 202.333.0375 or sydney.garmong@crowehorwath.com.

Under U.S. Treasury rules issued in 2005, we must inform you that any advice in this communication to you was not intended or written to be used, and cannot be used, to avoid any government penalties that may be imposed on a taxpayer.

Appendix A:
Illustrative Journal Entries for HTM Security

Assume an entity previously had recorded OTTI in the amount of $5,000 on a HTM security:

Illustrative Journal Entry: Initial OTTI (Pre-FSP)

DR	Loss on HTM security (income statement)	$5,000	
CR	HTM security – discount (contra-asset)		$5,000
DR	Deferred tax asset – FAS 109 (asset)	$2,000	
CR	Tax benefit (income statement)		$2,000

To record OTTI, and related tax effect at 40%, for HTM security.

The entity adopts FSP FAS 115-2 and determines $1,500 of impairment is noncredit related:

Illustrative Journal Entry: Adoption of FSP

DR	HTM security – Unamortized discount (contra-asset)	$1,500	
CR	HTM security – Noncredit component (contra-asset) *(new account no. 1)*		$1,500

To record adoption of FSP FAS 115-2, and re-establish the amortized cost basis, for prior OTTI on HTM security in accordance with paragraph 46 of FSP FAS 115-2.

DR	Accumulated OCI on HTM security (equity) *(new account no. 2)*	$900	
DR	Deferred tax asset for OCI HTM component (asset) *(new account no. 3)*	600	
CR	Deferred tax asset – FAS 109 (asset)		$600
CR	Retained earnings (equity)		900

To record adoption of FSP FAS 115-2 with impact on equity and related tax effects at 40% for prior OTTI on HTM security in accordance with paragraph 45 of FSP FAS 115-2.

Subsequent to adoption of FSP FAS 115-2, the entity determines there is an additional OTTI of $2,000 to be recognized:

Illustrative Journal Entry: OTTI Subsequent to Adoption of FSP

DR	Loss on HTM security (income statement)	$2,000	
CR	Loss on HTM security – Noncredit component (income statement) *(new account no. 4)*		$750
CR	HTM security – Discount (contra-asset)		1,250
DR	OCI – HTM non-credit component (equity) *(new account no. 2)*	$450	
DR	Deferred tax asset for OCI HTM component (asset) *(new account no. 3)*	300	
CR	HTM security – Noncredit component (contra-asset) *(new account no. 1)*		$750
DR	Deferred tax asset – FAS 109 (asset)	$500	
CR	Tax benefit (income statement)		$500
To record OTTI on HTM security and related tax effect at 40%, subsequent to adoption of FSP FAS 115-2.			

Subsequent to adoption of FSP FAS 115-2, the entity records accretion:

Illustrative Journal Entry: Accretion for Noncredit Component

DR	HTM security – Noncredit component (contra-asset) *(new account no. 1)*
CR	Deferred tax asset for OCI HTM component (asset) *(new account no. 3)*
CR	OCI – HTM noncredit component (equity) *(new account no. 2)*
To record accretion from OCI to amortized cost basis for HTM debt security in accordance with paragraph 34 of FSP FAS 115-2.	

Appendix B:
Implementation Example and Illustrative Journal Entries for AFS Debt Security

A $100,000 bond is purchased, and its entire principal amount matures at the end of 10 years. The coupon is 6 percent, which results in an annual interest payment of $6,000. The purchase price was $95,800 to yield 6.5866 percent. Total undiscounted cash flows expected to be collected are $160,000. The security is classified as AFS.

At Inception

Interest Rate	6.00%
Interest Payment	$6,000.00
Contractual Life (Years)	10
Par	$100,000.00
Discount	(4,200.00)
Amortized Cost	$95,800.00
Effective Yield	6.5866%

Event A

At the end of year three, there is OTTI. The revised cash flows expected to be collected are $85,000 of principal, and revised interest payments are $5,000, which results in revised undiscounted cash flows expected to be collected of $120,000. The fair value is $70,500 and the present value of the revised cash flows expected to be collected, discounted at the effective yield, is $81,727. If the FSP had been in place at the time the initial OTTI was taken, the pro forma table shows how the calculation would have differed.

End of Year 3: OTTI Charge Pre-FSP

Revised Payments	$5,000.00
Remaining Life	7 years
Revised Principal	$85,000.00
Amortized Cost	$96,792.51
OTTI	(26,292.51)
Fair Value	$70,500.00
Revised Effective Yield	9.3067%

Pro Forma: PV of Cash Flows (End of Year 3)

Revised Payments	$5,000.00
Remaining Life	7 years
Revised Principal	$85,000.00
Amortized Cost	$96,792.51
Credit Loss	(15,065.66)
PV of Cash Flows	$81,726.85
Effective Yield	6.5866%

Illustrative Journal Entry: Initial OTTI (Pre-FSP)

DR	Loss on AFS security (income statement)	$26,292.51	
CR	AFS security – Discount (contra-asset)		$26,292.51
DR	AFS security – FAS 115 adjustment (contra-asset)	$26,292.51	
CR	OCI – FAS 115 (equity)		$15,775.51
CR	Deferred tax asset – FAS 115 (asset)		10,517.00
DR	Deferred tax asset – FAS 109 (asset)	$10,517.00	
CR	Tax benefit (income statement)		$10,517.00
To record OTTI, and related tax effect at 40%, for AFS security.			

Event B

At the beginning of year seven, the entity adopts FSP FAS 115-2. The present value of the cash flows expected to be collected is determined:

**Beginning of Year 7:
Adoption of FSP FAS 115-2**

Revised Payments	$5,000.00
Remaining Life	4 years
Revised Principal	$85,000.00
Amortized Cost	$75,633.19
Reversal of Prior OTTI	7,320.10
PV of Cash Flows	$82,953.29
Fair Value	$70,000.00
Effective Yield	6.5866%

Illustrative Journal Entry: Adoption of the FSP

DR	AFS security – Unamortized discount (contra-asset)	$7,320.10	
CR	AFS security – FAS 115 adjustment (contra-asset)		$7,320.10

To record adoption of FSP FAS 115-2, and re-establish the amortized cost basis, for prior OTTI on AFS security in accordance with paragraph 46 of FSP FAS 115-2.

DR	Accumulated OCI on AFS security (equity)	$4,392.06	
DR	Deferred tax asset – FAS 115 (asset)	2,928.04	
CR	Deferred tax asset – FAS 109 (asset)		$2,928.04
CR	Retained earnings (equity)		4,392.06

To record adoption of FSP FAS 115-2 with impact on equity and related tax effects for prior OTTI on AFS security in accordance with paragraph 45 of FSP FAS 115-2.

Event C

At the end of year eight, the entity determines there is OTTI to be recorded. The entity revises the cash flows expected to be collected:

End of Year 8:
Additional OTTI Charge

Revised Payments	$4,500.00
Remaining Life	2 years
Revised Principal	$80,000.00
Amortized Cost	$83,911.45
Credit Loss	(5,310.35)
PV of Cash Flows	$78,601.10
Fair Value	$65,000.00
Effective Yield	6.5866%

Under U.S. Treasury rules issued in 2005, we must inform you that any advice in this communication to you was not intended or written to be used, and cannot be used, to avoid any government penalties that may be imposed on a taxpayer.

Illustrative Journal Entry: OTTI Subsequent to Adoption of FSP

DR	Loss on AFS security (income statement)	$18,911.45	
CR	Loss on AFS security – Noncredit component (income statement) *(new account)*		$13,601.10
CR	AFS security – Discount (contra-asset)		5,310.35
DR	AFS security – FAS 115 (contra-asset)	$5,310.35	
CR	OCI – FAS 115 (equity)		$3,186.21
CR	Deferred tax asset – FAS 115 (asset)		2,124.14
DR	Deferred tax asset – FAS 109 (asset)	$2,124.14	
CR	Tax benefit (income statement)		$2,124.14

To record OTTI on AFS security and related tax effect at 40%, subsequent to adoption of FSP FAS 115-2.

A summary of the above transactions:

Year	Par	Unaccreted Balance	Amortized Cost	Unrealized Loss /Gain (FAS 115)	Fair Value	Interest Income	Accretion Income	Total Interest Income	Effective Yield
		$(4,200.00)	$95,800.00						
1	$100,000.00	(3,890.03)	96,109.97	$890.03	$97,000.00	$6,000.00	$309.97	$6,309.97	6.5866%
2	100,000.00	(3,559.64)	96,440.36	(1,440.36)	95,000.00	6,000.00	330.39	6,330.39	6.5866
3	100,000.00	(3,207.49)	96,792.51	(26,292.51)	70,500.00	6,000.00	352.15	6,352.15	6.5866
Event A: OTTI		(26,292.51)	(26,292.51)	26,292.51					
		(29,500.00)	70,500.00	0.00	70,500.00				
4	100,000.00	(27,938.75)	72,061.25	(4,061.25)	68,000.00	5,000.00	1,561.25	6,561.25	9.3067
5	100,000.00	(26,232.19)	73,767.81	(2,767.81)	71,000.00	5,000.00	1,706.56	6,706.56	9.3067
6	100,000.00	(24,366.81)	75,633.19	(5,633.19)	70,000.00	5,000.00	1,865.38	6,865.38	9.3067
Event B: Adopt FSP		7,320.10	7,320.10	(7,320.10)					
		(17,046.71)	82,953.29	(12,953.29)	70,000.00				
7	100,000.00	(16,582.91)	83,417.09	(14,417.09)	69,000.00	5,000.00	463.81	5,463.81	6.5866
8	100,000.00	(16,088.55)	83,911.45	(18,911.45)	65,000.00	5,000.00	494.36	5,494.36	6.5866
Event C: OTTI		(5,310.35)	(5,310.35)	5,310.35					
		(21,398.90)	78,601.10	(13,601.10)	65,000.00				
9	100,000.00	(20,721.75)	79,278.25	(6,278.25)	73,000.00	4,500.00	677.15	5,177.15	6.5866
10	100,000.00	(20,000.00)	80,000.00	0.00	80,000.00	4,500.00	721.75	5,221.75	6.5866
						$52,000.00	$8,482.77	$60,482.77	

FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: August 28, 2009
Comments Due: October 12, 2009

Fair Value Measurements and Disclosures (Topic 820)

Improving Disclosures about Fair Value Measurements

This Exposure Draft of a proposed Accounting Standards Update of Topic 820 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director
File Reference No. 1710-100

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification™* is the single source of authoritative nongovernmental U.S. generally accepted accounting principles. An Accounting Standards Update is not authoritative; it only provides background information about an issue, updates the Accounting Standards Codification, and provides the basis for conclusions for the Board's decision to update the Accounting Standards Codification.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by October 12, 2009. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1710-100. Those without email may send their comments to "Technical Director, File Reference No. 1710-100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

An electronic copy of this Exposure Draft is available on the FASB's website until the FASB issues a final Accounting Standards Update.

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Proposed Accounting Standards Update

Fair Value Measurements and Disclosures (Topic 820)

Improving Disclosures about Fair Value Measurements

August 28, 2009

Comment Deadline: October 12, 2009

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

A number of constituents have recommended that the Board improve U.S. generally accepted accounting principles (GAAP) disclosure requirements related to the Fair Value Measurements and Disclosures—Overall Subtopic (Subtopic 820-10) of the *FASB Accounting Standards Codification*™, originally issued as FASB Statement No. 157, *Fair Value Measurements.* The Board believes that users will benefit from improved disclosures in this proposed Update and that the benefits of the increased transparency in financial reporting will outweigh the costs of complying with the new requirements.

Who Would Be Affected by the Amendments in This Proposed Update?

All entities that are required to make disclosures about recurring and nonrecurring fair value measurements would be affected by the amendments in this proposed Update.

What Are the Key Provisions?

This proposed Update provides amendments to Subtopic 820-10 that would require new disclosures as follows:

1. Effect of reasonably possible alternative Level 3 inputs. For fair value measurements using significant unobservable inputs (Level 3), if changing one or more of those inputs to reasonably possible alternative inputs would increase or decrease the fair value measurement significantly (sometimes also referred to as sensitivity disclosures), the reporting entity would state that fact and disclose the total effect(s) of the changes on the fair value measurement.
2. Transfers in and/or out of Levels 1 and 2. The reporting entity would disclose the amounts of significant transfers in and/or out of Level 1 and Level 2 fair value measurements and the reasons for the transfers.
3. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), information about purchases, sales, issuances, and settlements would be required on a gross basis rather than as one net number.

This proposed Update provides amendments to Subtopic 820-10 that would clarify existing disclosures as follows:

1. Level of disaggregation. An entity is required to provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity would need to apply judgment in determining the appropriate classes of assets and liabilities.
2. Disclosures about inputs and valuation techniques. An entity is required to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

How Are the Key Provisions Different from Current U.S. GAAP and Why Would They Be an Improvement?

The Board has proposed the improvements to disclosures about fair value measurements on the basis of input received from users of financial statements. The Board believes that users will benefit from information about a *range of fair value* if the reporting entity were to use reasonably possible alternative inputs for Level 3 measurements and significant transfers between Levels 1, 2, and 3. Users also are seeking a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements.

When Would the Amendments Be Effective?

The new disclosures and clarifications of existing disclosures would be effective for interim and annual reporting periods ending after December 15, 2009, except for the sensitivity disclosures about Level 3 fair value measurements. Level 3 sensitivity disclosures would be effective for interim and annual reporting periods ending after March 15, 2010.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this proposed Update would improve the comparability of financial reporting internationally because those required disclosures also are required by IFRS. For example, IFRS 7, *Financial Instruments: Disclosures,* as amended in March 2009, requires disclosures similar to those provided in this proposed Update, such as disclosures about transfers between Levels 1, 2, and 3 and the total effects of reasonably possible alternative Level 3 inputs.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

1. Financial statement preparers about their operationality and costs
2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7
3. Financial statements users about their usefulness—more specifically, a discussion of how they would benefit from, and use, such disclosures.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

Issue 3: Is the proposed effective date operational? In particular:

1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?
2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

Amendments to the *FASB Accounting Standards Codification*™

Introduction

The following are amendments to the Accounting Standards Codification as a result of this proposed Update. In some cases, not only are the amended paragraphs shown but the preceding and following paragraphs also are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Subtopic 820-10

1. Amend paragraphs 820-10-50-1 through 50-2, with a link to transition paragraph 820-10-65-XX, as follows:

820-10-50-1 The reporting entity shall disclose information that enables users of its financial statements to assess both of the following:

a. For assets and liabilities that are measured at **fair value** on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the valuation techniques and **inputs** used to develop those measurements
b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) for the ~~period.~~period and the total effect(s) of changes in reasonably possible alternative inputs.

820-10-50-2 To meet ~~that objective,~~the objectives listed in the preceding paragraph, the reporting entity shall disclose all of the following information for each interim and annual period separately for each ~~major category~~class of assets and ~~liabilities:~~liabilities. A reporting entity shall determine appropriate classes of assets and liabilities based on the guidance in the following paragraph. It shall provide sufficient information to permit reconciliation of the fair value measurement disclosures for the various classes of assets and liabilities to the line items in the statement of financial position.

a. The fair value ~~measurements~~measurement at the reporting date
b. The level within the fair value hierarchy in which the fair value ~~measurements~~measurement in its~~their~~ entirety ~~fall,~~falls, segregating the fair value ~~measurements~~measurement using any of the following:

   1. Quoted prices in active markets for identical assets or liabilities (Level 1)
   2. Significant other **observable inputs** (Level 2)
   3. Significant unobservable inputs (Level 3).

bb. The amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers. Significant transfers into each level shall be disclosed separately from transfers out of each level. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. Also, for this purpose, any significant transfers shall be presumed to have occurred as of the beginning of the interim period in which the transfer occurred.

c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to any of the following:
   1. Total gains or losses for the period (realized and unrealized)~~,~~ ~~segregating those~~, separately presenting gains or losses included in earnings (or changes in net ~~assets),~~assets) and gains or losses recognized in other comprehensive income, and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)
   2. Purchases, sales, issuances, and settlements ~~(net)~~(each type disclosed separately)
   3. Transfers in and/or out of Level 3 ~~(for example, transfers due to changes in the observability of significant inputs).~~and the reasons for those transfers. If transfers are significant, the transfers into Level 3 shall be disclosed separately from transfers out of Level 3. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. Also, for this purpose, any significant transfers shall be presumed to have occurred as of the beginning of the interim period in which the transfer occurred.

d. The amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)

e. ~~The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.~~For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), the valuation techniques and inputs used in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique (for example, changing from a market approach to an income approach), the reporting entity shall disclose that change and the reason for making it.

~~For equity and debt securities *major category* shall be defined as *major security type* as described in paragraph 942-320-50-2 even if the equity securities or debt securities are not within the scope of Subtopic 942-320.~~

f. For fair value measurements using significant unobservable inputs (Level 3), if changing one or more of the significant unobservable inputs to **reasonably possible** alternative inputs would increase or decrease the fair value significantly, the reporting entity shall state that fact and disclose the total effect(s) of the change(s). The reporting entity shall describe how the total effect or effects of the change(s) to reasonably possible alternative inputs are calculated. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. In determining reasonably possible alternative inputs, the reporting entity shall consider the current economic environment(s) in which it operates, including the expected effects of correlation among changes in significant inputs if estimating the effect of more than one reasonably possible change. A reasonably possible change in inputs shall not include remote or worst case scenarios. The reporting entity shall disclose quantitative information about the significant inputs used and reasonably possible alternative inputs for each class of fair value measurement that uses significant unobservable inputs (Level 3). For example, for residential-mortgage-backed securities, the reporting entity's quantitative disclosures may include inputs used and reasonably possible alternative inputs related to yield/discount rate, probability of default, loss severity, and prepayment rate.

2. Add paragraphs 820-10-50-2A through 50-2B, with a link to transition paragraph 820-10-65-XX, as follows:

820-10-50-2A For equity and debt securities, *class* shall be the same as *major security type* as described in paragraph 320-10-50-1B and, if applicable, in paragraph 942-320-50-2 even if the equity securities or debt securities are not within the scope of those paragraphs. For all other assets and liabilities, judgment is needed to determine the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. Fair value measurement disclosures for each class of assets and liabilities often will require greater disaggregation than the reporting entity's line items in the statement of financial position. A reporting entity shall determine the appropriate classes for those disclosures on the basis of the nature and risks of the assets and liabilities and their classification in the fair value hierarchy (that is, Levels 1, 2, and 3). In determining the appropriate classes for fair value measurement disclosures, the reporting entity shall consider the level of disaggregated information already required for specific assets and liabilities under other U.S. generally accepted accounting principles (GAAP). For example, under Topic 815, disclosures relating to derivative instruments are presented separately by type of contract such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts. The classification of the asset or liability in the fair value hierarchy also shall affect the level of disaggregation because of the different degrees of uncertainty and subjectivity involved in Level 1, Level 2, and Level 3 measurements. For example, the number of classes may need to be greater for fair value measurements using significant unobservable inputs (that is, Level 3 measurements) to achieve the disclosure objectives because Level 3 measurements have a greater degree of uncertainty and subjectivity.

820-10-50-2B The disclosure described in paragraph 820-10-50-2(f) is not required for Level 3 fair value measurements that are within the scope of paragraph 820-10-50-XX, which relates to the use of net asset value.

(Note: This paragraph reference will be completed after final issuance of the Update related to the use of net asset value.)

3. Amend paragraphs 820-10-50-3 through 50-6, with a link to transition paragraph 820-10-65-XX, as follows:

820-10-50-3 For derivative assets and liabilities, consistent with the requirement of paragraph 815-10-50-4B(a), the fair value disclosures required by paragraph 820-10-50-2(a) through (bb) shall be presented on a gross basis; however, the reconciliation disclosure required by ~~(c) in the preceding~~ paragraph 820-10-50-2(c) through (d) may be presented ~~net.~~on a net basis.

820-10-50-4 Example 8, Cases A and B (see paragraphs 820-10-55-60 through 55-63) illustrate disclosures about recurring measurements. Example 8, Case D (see paragraph 820-10-55-65) is applicable to both recurring measurements and nonrecurring measurements.

820-10-50-5 For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the valuation techniques and inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose all of the following information for each interim and annual period separately for each ~~major category~~class of assets and ~~liabilities:~~liabilities. The reporting entity shall determine classes of assets and liabilities on the basis of the guidance in paragraph 820-10-50-2A.

a. The fair value ~~measurements~~measurement recorded during the period and the reasons for the ~~measurements~~measurement

b. The level within the fair value hierarchy in which the fair value ~~measurements~~measurement in ~~their~~its entirety ~~fall,~~falls, segregating the fair value ~~measurements~~measurement using any of the following:
   1. Quoted prices in active markets for identical assets or liabilities (Level 1)
   2. Significant other observable inputs (Level 2)
   3. Significant unobservable inputs (Level 3).

c. Subparagraph superseded by Accounting Standards Update 2009-XX.~~For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs~~

d. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), the disclosure required by paragraph 820-10-50-2(e).~~The inputs and valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) and related inputs used to measure similar assets and/or liabilities in prior periods.~~

~~For equity and debt securities *major category* shall be defined as *major security type* as described in paragraph 942-320-50-2 even if the equity securities or debt securities are not within the scope of Subtopic 942-320.~~

e. For fair value measurements using significant unobservable inputs (Level 3), the disclosure required by paragraph 820-10-50-2(f).

820-10-50-6 Example 8, Case C (see paragraph 820-10-55-64) illustrates disclosures about nonrecurring measurements. Example 8, Case D (see paragraph 820-10-55-65) is applicable to both recurring measurements and nonrecurring measurements.

4. Add paragraph 820-10-55-22A and its related heading, with a link to transition paragraph 820-10-65-XX, as follows:

> > > Disclosures—Valuation Techniques and Inputs

820-10-55-22A Examples of relevant disclosures a reporting entity may present to comply with the requirements of paragraph 820-10-50-2(e) include the following:

a. The type of valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach.
b. Quantitative information about the inputs relating to prepayment rates, rates of estimated credit losses, interest rates (for example, LIBOR swap rate) or discount rates, and volatilities.
c. The nature and type of collateral, guarantees, or other credit enhancements. For example, for residential-asset-backed mortgage securities, a reporting entity may conclude that meeting the objective of this disclosure requirement requires disclosure of the types of loans (for

example, subprime or home equity lines of credit), the year of issuance, geographical concentration, and information about the credit ratings of the securities.

d. How broker quotes, pricing services, net asset values, and relevant market data were considered in determining fair value.

5. Add paragraph 820-10-55-60A, with a link to transition paragraph 820-10-65-XX, as follows:

820-10-55-60 The disclosures required by paragraphs 820-10-50-2(a) through (d) and 820-10-50-5(a) through (b) are illustrated by the following Cases:

a. Assets measured at fair value on a recurring basis (Case A)
b. Assets measured at fair value on a recurring basis using significant **unobservable inputs** (Case B)
c. Assets measured at fair value on a nonrecurring basis (Case C).

820-10-55-60A The disclosures required by paragraph 820-10-50-2(f) are illustrated by the following Case:

a. The effect of reasonably possible alternative inputs on fair value measurements using significant unobservable inputs (Level 3) (Case D).

6. Amend paragraphs 820-10-55-61 through 55-64, with a link to transition paragraph 820-10-65-XX, as follows:

820-10-55-61 For assets and liabilities measured at fair value on a recurring basis during the period, this Subtopic requires quantitative disclosures about the fair value measurements separately for each ~~major category~~class of assets and liabilities (see paragraph 820-10-50-2(a) through (b)). For assets, that information might be presented as follows.

~~($ in 000s)~~

		~~Fair Value Measurements at Reporting Date Using~~		
~~Description~~	**~~12/31/XX~~**	**~~Quoted Prices in Active Markets for Identical Assets (Level 1)~~**	**~~Significant Other Observable Inputs (Level 2)~~**	**~~Significant Unobservale Inputs (Level 3)~~**
~~Trading securities:~~				
~~Equity securities-real estate~~	~~$ 115~~	~~$ 105~~	~~$ 10~~	
~~Available-for-sale securities:~~				
~~Residential mortgage backed securities~~	~~75~~			~~$ 75~~
~~Derivatives~~	~~60~~	~~25~~	~~15~~	~~20~~
~~Venture capital investments~~	~~10~~			~~10~~
~~Total~~	~~$ 260~~	~~$ 130~~	~~$ 25~~	~~$ 105~~

~~(Note: For liabilities, a similar table should be presented.)~~

($ in millions)

Description	12/31/XX	Fair Value at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities				
Equity securities—real estate industry	$ 93	$ 70	$ 23	
Equity securities—oil & gas industry	45	45		
Equity securities—other	15	15		
Total trading securities	$ 153	$ 130	$ 23	
Available-for-sale debt securities				
Residential-mortgage-backed securities	$ 149		$ 24	$ 125
Commercial-mortgage-backed securities	50			50
Collateralized debt obligations	35			35
U.S. Treasury securities	85	$ 85		
Corporate bonds	93	9	84	
Total available-for-sale debt securities	$ 412	$ 94	$ 108	$ 210
Available-for-sale equity securities				
Financial services industry	$ 150	$ 150		
Healthcare industry	110	110		
Other	15	15		
Total available-for-sale equity securities	$ 275	$ 275		
Total available-for-sale securities	$ 687	$ 369	$ 108	$ 210
Hedge fund investments				
Equity long/short	$ 55	$ 55		
Global opportunities	35	35		
Distressed debt	90			$ 90
Total hedge fund investments	$ 180	$ 90		$ 90
Private equity investments[a]	$ 25			$ 25
Venture capital investments[a]	10			10
Derivatives				
Interest rate contracts	57		$ 57	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	78	$ 78		
Commodity forward contracts	20		20	
Total derivatives	$ 236	$ 78	$ 120	$ 38
Total	$ 1,291	$ 667	$ 251	$ 373

(a) Based on its analysis of the nature and risks of these investments, the reporting entity has determined that presenting them as a single class is appropriate.

(Note: For liabilities, a similar table should be presented.)

As required by paragraph 820-10-50-2(bb), the entity also shall disclose the amounts of any significant transfers from/to Level 1 and Level 2 and the reasons for those transfers. Transfers from/to Level 3 are disclosed in the table illustrated in Case B below (see paragraphs 820-10-55-62 through 55-63).

820-10-55-62 For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, this

Subtopic requires a reconciliation of the beginning and ending balances, separately for each ~~major~~class ~~category~~ of assets and liabilities, except for derivative assets and liabilities, which may be presented net (see paragraph 820-10-50-2(c) through (d)). For assets, the reconciliation might be presented as follows.

~~($ in 000s)~~	~~Residential-Mortgage Backed Securities~~	~~Derivatives~~	~~Venture-Capital-Investments~~	~~Total~~
		~~Fair Value Measurements Using Significant Unobservable Inputs (Level 3)~~		
~~Beginning balance~~	~~$ 80~~	~~$ 14~~	~~$ 11~~	~~$ 105~~
~~Total gains or losses (realized/unrealized)~~				
~~Included in earnings (or changes in net assets)~~		~~11~~	~~(3)~~	~~8~~
~~Included in other comprehensive income~~	~~(5)~~	~~4~~		~~(1)~~
~~Purchases, issuances, and settlements~~		~~(7)~~	~~2~~	~~(5)~~
~~Transfers in and/or out of Level 3~~		~~(2)~~		~~(2)~~
~~Ending balance~~	~~$ 75~~	~~$ 20~~	~~$ 10~~	~~$ 105~~
~~The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date~~	~~$ -~~	~~$ 7~~	~~$ 2~~	~~$ 9~~

~~(Note: For liabilities, a similar table should be presented.)~~

Roll forward
($ in millions)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Available-for-Sale Debt Securities			Other Fund Investments				
	Residential-Mortgage-Backed Securities	Commercial-Mortgage-Backed Securities	Collateralized Debt Obligations	Hedge Fund Distressed Debt	Private Equity	Venture Capital	Derivatives Credit Contracts	Total
Beginning balance	$ 100	$ 39	$ 25	$ 145	$ 20	$ 11	$ 30	$ 370
Transfers into Level 3	60 [(a)]							60
Transfers out of Level 3								
Total gains or losses (realized/unrealized)								
Included in earnings (or changes in net assets)	(8)			7	5	(3)	5	6
Included in other comprehensive income	(15)	(5)	(7)				(5)	(32)
Purchases, issuances, sales, and settlements								
Purchases		16	17			2	18	53
Issuances								
Sales	(12)			(62)				(74)
Settlements							(10)	(10)
Ending balance	$ 125	$ 50	$ 35	$ 90	$ 25	$ 10	$ 38	$ 373
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date				$ (5)	$ 5	$ (3)	$ 2	$ (1)

(a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity for these securities.

(Note: For liabilities, a similar table should be presented.)

820-10-55-63 Gains and losses (realized and unrealized) included in earnings (or changes in net assets) for the period (above) are reported in trading revenues and in other revenues as follows.

	Trading Revenues	Other Revenues
Total gains or losses included in earnings (or changes in net assets) for the period (as shown in the table in the preceding paragraph)	$ ~~11~~ 5	$ ~~(3)~~ 1
Change in unrealized gains or losses relating to assets still held at reporting date	$ ~~7~~ 2	$ ~~2~~ (3)

820-10-55-64 For each ~~major category~~class of assets and liabilities measured at fair value on a nonrecurring basis during the period, this Subtopic requires disclosures about the fair value measurements (see paragraph 820-10-50-5(a) through (b)). That information might be presented as follows.

($ in millions)		Fair Value Measurements Using			
Description	Year Ended 12/31/XX	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Long-lived assets held and used	$ 75		$ 75		$ (25)
Goodwill	30			$ 30	(35)
Long-lived assets held for sale	26		26		(15)
					$ (75)

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held and used with a carrying amount of $100 million were written down to their fair value of $75 million, resulting in an impairment charge of $25 million, which was included in earnings for the period.

In accordance with the provisions of FASB Codification Topic 350, Intangibles—Goodwill and Other, goodwill with a carrying amount of $65 million was written down to its implied fair value of $30 million, resulting in an impairment charge of $35 million, which was included in earnings for the period.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held for sale with a carrying amount of $35 million were written down to their fair value of $26 million, less cost to sell of $6 million (or $20 million), resulting in a loss of $15 million, which was included in earnings for the period.

For an illustrative example of the effect of reasonably possible alternative inputs on fair value measurements using significant unobservable inputs (Level 3), see Case D in paragraph 820-10-55-65.

7. Add paragraph 820-10-55-65 and its related heading, with a link to transition paragraph 820-10-65-XX, as follows:

> > > Case D: Disclosure—Effect of Reasonably Possible Alternative Inputs on Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

820-10-55-65 Paragraphs 820-10-50-2(f) and 820-10-50-5(e) require disclosure of the total effect(s) of significant increases or decreases in fair values from using reasonably possible alternative inputs for Level 3 fair value measurements. For Level 3 assets with recurring fair value measurements, that information might be presented as follows.

Effect of Reasonably Possible Alternative Inputs for Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

($ in millions)

Description	Valuation Basis/ Techniques	Significant Inputs	Fair Value	Effect of Reasonably Possible Alternative Inputs: Increase in Fair Value	Effect of Reasonably Possible Alternative Inputs: Decrease in Fair Value	See Note
Available-for-sale securities						
Residential-mortgage-backed securities	Industry standard model	Prepayment rates, probability of default, loss severity, and yield	$ 125	$ 20	$ (30)	(a)
Commercial-mortgage-backed securities	Industry standard model	Prepayment rates, probability of default, loss severity, and yield	50	X	X	
Collateralized debt obligations	Proprietary model	Implied collateral valuation, default rates, housing prices, correlation	35	X	X	
Total available-for-sale securities:			$ 210	XX	XX	
Hedge fund investments						
Distressed debt	Net asset value per share		$ 90			
Other fund investments						
Private equity investments	Net asset value per share		$ 25			
Venture capital investments	Net asset value per share		10			
Total other fund investments			35			
Derivative credit contracts	Proprietary model	Volatility, correlation	38	X	X	
Total			$ 373	XX	XX	

Note (a): The reporting entity has classified fair value measurements of residential-mortgage-backed securities as Level 3 because other relevant observable inputs are not available and a valuation technique is used that uses significant unobservable inputs. The reporting entity uses an industry standard model based on an expected present value technique to project the expected future cash flows to be received from the underlying mortgages and to forecast how those cash flows will be distributed to the holders of the various tranches of residential-mortgage-backed securities. This model uses data provided by third-party servicers of the underlying mortgage portfolios as well as inputs for mortgage prepayments, probability of default, expected losses, and yield. The reporting entity also considers adjustments to the value indication for liquidity risk premiums and other factors to reflect the price that the instrument could be sold for in an orderly transaction between market participants at the measurement date under current market conditions.

The weighted average of the key significant inputs used for Level 3 residential-mortgage-backed securities fair value measurements are shown in the table below.

20XX	Non-Agency Prime RMBS	Alt-A RMBS
Yield	XX%	XX%
Probability of default	XX Constant default rate or probablility of default	XX Constant default rate or probablility of default
Loss severity	XX%	XX%
Prepayment	XX Constant prepayment rate	XX Constant prepayment rate

The fair value of securities within each type of residential-mortgage-backed securities changes on a broadly consistent basis in response to changes in given market factors. However, the extent of any change, and, therefore, the range of reasonably possible alternative assumptions, may be either more or less pronounced depending on the particular terms and circumstances of the individual security. Through most of 20XX, there was less observable current and historical data to predict future defaults and loss severities on both Alt-A and prime securities than other types of residential-mortgage-backed securities.

The reporting entity concludes that the probability of default and loss severity were the most sensitive inputs into Alt-A and prime residential-mortgage-backed securities fair value measurements throughout 20XX. The reporting entity believes that a range of XX basis points greater than and XX basis points less than the weighted-average constant default rate, and a range of XX basis points greater than and XX basis points less than the weighted-average constant default rate represent reasonably possible alternative inputs for Alt-A and prime residential-mortgage-backed securities, respectively. The reporting entity further believes that a range of XX basis points greater than and XX basis points less than the weighted-average loss severity rate, and a range of XX basis points greater than and XX basis points less than the weighted-average loss severity rate represent reasonably possible alternative inputs for Alt-A and prime residential-mortgage-backed securities, respectively. These inputs consider the higher risk profile of Alt-A over prime securities, as well as declining economic conditions that may lead to an increased likelihood of default and loss severity at year-end.

While other key inputs for fair value measurements of both Alt-A and prime residential-mortgage-backed securities may have reasonably possible alternative inputs, the reporting entity believes that their effect on the overall fair value measurement would not be significant. Using significant reasonably possible alternative inputs and the correlation impact of multiple inputs (if any), the fair value of residential-mortgage-backed securities of $XXX million at December 31, 20XX, would be $XX million lower or $XX million higher.

The reporting entity would include disclosures similar to Note (a) to describe how the effect of reasonably possible alternative inputs was determined for each class of Level 3 fair value measurements.

(Note: A similar table should be presented for Level 3 liabilities.)

8. Add paragraph 820-10-65-XX and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2009-XX, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements

820-10-65-XX The following represents the transition and effective date information related to Accounting Standards Update 2009-XX:

a. The pending content that links to this paragraph shall be effective for interim and annual reporting periods ending after December 15, 2009, except for the sensitivity disclosures for Level 3 measurements (see paragraphs 820-10-50-2(f) and 820-10-50-5(e)), which shall be effective for interim and annual reporting periods ending after March 15, 2010.
b. In the period of initial adoption, the reporting entity is not required to provide the disclosures otherwise required by the pending content for any previous periods presented for comparative purposes.
c. In periods after initial adoption, comparative disclosures are required only for periods ending after the initial adoption.

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes considerations that Board members deemed significant in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. U.S. GAAP requires an entity to provide disclosures about fair value measurements used in financial statements. Most of those requirements are set out in Subtopic 820-10 of the Accounting Standards Codification.

BC3. A number of constituents have recommended that the Board improve disclosure requirements in U.S. GAAP on fair value measurements. Some of the more recent requests and developments include the following:

a. During 2008, the Security and Exchange Commission's (SEC) Office of the Division of Corporate Finance issued letters to some public companies that encouraged additional management's discussion and analysis (MD&A) disclosures about the application of the disclosure requirements in U.S. GAAP on fair value measurements.
b. In October 2008, in responding to FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* some financial statement users urged the Board to enhance the disclosure requirements in U.S. GAAP on fair value measurements.
c. In October 2008, the International Accounting Standard Board's (IASB) Expert Advisory Panel issued a report titled *Measuring and Disclosing the Fair Value of Financial Instruments in Markets That Are No Longer Active*. On the basis of that report, the IASB issued proposals to improve the fair value disclosures in IFRS 7, *Financial Instruments: Disclosures*.
d. In December 2008, the SEC released its *Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting*. This report recommended that the FASB consider enhancing the disclosure requirements in U.S. GAAP on fair value measurements.

e. In February 2009, the FASB's Valuation Resource Group met to discuss various issues on the implementation of fair value disclosure requirements in U.S. GAAP and suggested additional disclosures.
f. In March 2009, the International Monetary Fund issued the Working Paper, *Procyclicality and Fair Value Accounting*. The authors of that Paper recommend that fair value measurements be supplemented with adequate disclosures.
g. In March 2009, the IASB issued *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7). The amendments require some new disclosures in addition to amendments to improve convergence with the fair value hierarchy and the related disclosures in Subtopic 820-10.

BC4. The Board issued this proposed Update in response to the developments summarized above.

Preparer Outreach

BC5. Before issuing this proposed Update, the Board directed the staff to seek preparer input to assess the operationality of the disclosures about the level of disaggregation and the effect(s) of reasonably possible alternative inputs for fair value measurements using significant unobservable inputs (Level 3). Seven financial statement preparers volunteered to participate in this outreach effort. This proposed Update incorporates suggestions made by some of those preparers. For example, most volunteer participants expressed concerns about the operationality of the proposed requirement for a tabular quantitative disclosure of Level 2 and Level 3 fair value measurements disaggregated by types of significant inputs such as broker quotes, yield curves, volatilities, housing prices, and default rates. Therefore, the Board decided not to require a quantitative tabular disclosure and, instead, to replace it with a qualitative disclosure of significant inputs used for each class of Level 2 and Level 3 fair value measurements. Furthermore, on the basis of concerns expressed by the volunteer participants about the proposed sensitivity disclosures for Level 3 fair value measurements, the Board decided to seek additional input from both preparers and users (by including a specific question for respondents of this proposed Update) to refine the Board's cost-benefit assessment of those disclosures.

Clarifications of Existing Disclosure Requirements

Level of Disaggregation

BC6. Existing U.S. GAAP on fair value measurement and disclosures requires an entity to provide disclosures about fair value measurements for each *major category* of assets and liabilities. Some users noted that many companies seem to have interpreted the phrase *major category* to mean a line item in the statement of financial position. Those users told the Board that disclosures at that relatively high level of aggregation are often less useful. They recommended that the Board require that entities provide disclosures for meaningful subsets of line items in the statement of financial position.

BC7. The Board agrees that disclosures about fair value measurements would be more useful if the entities provided them for each *class* of assets and liabilities within the line items in the statement of financial position. The Board decided to amend U.S. GAAP on fair value measurements and disclosures to include additional guidance on determining the appropriate level of disaggregation for those disclosures.

Disclosures about Inputs to Recurring Fair Value Measurements

BC8. U.S. GAAP on fair value measurements and disclosures includes specific objectives that entities should achieve when providing disclosures about recurring fair value measurements (paragraph 820-10-50-1(a)). Those objectives state, in part:

> The reporting entity shall disclose information that enables users of its financial statements to assess both of the following:
>
> a. For assets and liabilities that are measured at **fair value** on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the **inputs** used to develop those measurements. . . .

BC9. U.S. GAAP on fair value measurements and disclosures also provides a list of specific disclosures an entity should make to meet the above objective; however, that list does not include a requirement to discuss the inputs to recurring fair value measurements. The Board notes that paragraph 820-10-50-2(e) of the Accounting Standards Codification requires an entity to describe the techniques used for recurring fair value measurements. The Board believes that a discussion of techniques would be incomplete without a discussion of the inputs. However, the Board also believes that a more explicit requirement to discuss the inputs for recurring fair value measurements would clarify and improve disclosures. The amendments in this proposed Update also would clarify that for recurring, as well as nonrecurring, fair value measurements, the disclosures about inputs and valuation techniques apply to both Level 2 and Level 3 fair value measurements, not just Level 3 fair value measurements.

New Disclosures Requirements

Effect of Reasonably Possible Alternative Level 3 Inputs

BC10. With respect to fair value measurements using Level 3 inputs, financial statement users have indicated that information about the effect(s) of reasonably possible alternative inputs would be relevant in their analysis of the reporting entity's performance. The Board believes that users would benefit from information about a *range of fair value* for Level 3 measurements because of their greater degree of uncertainty and subjectivity. The phrase *reasonably possible* as used in this proposed Update has the same meaning as that term is defined in the Accounting Standards Codification's Master Glossary.

BC11. Under current SEC rules, registrants may present sensitivity information to comply with the disclosure requirements in Financial Reporting Release No. 48, *Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information About Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments,* for quantitative information about exposure to future changes in market risk from financial instruments. Consequently, some SEC registrants may already be providing sensitivity information in their MD&A disclosures although it is different from the type of sensitivity information required by this proposed Update. Furthermore, IFRS 7, as amended in March 2009, requires sensitivity information about potential changes in fair value measurements resulting from using reasonably possible alternative Level 3 inputs. The Board believes that the disclosure of similar information under U.S. GAAP would be useful because it would indicate a range of values under different reasonably possible alternative inputs in the audited financial statements.

BC12. To be consistent with the approach adopted in IFRS 7, as amended in March 2009, amendments in this proposed Update would not prescribe any specific method to calculate the effect(s) of reasonably possible alternative inputs but would require disclosure of the method that the reporting entity used in complying with the sensitivity disclosure requirement. While not prescribing any specific method, the amendments in this proposed Update would clarify that when estimating the effect of more than one reasonably possible input, the entity would include the expected effect of correlation among changes in different significant inputs. For sensitivity disclosures to be useful for further analyses by users of financial statements, the proposed amendments would require *quantitative* disclosure about the significant inputs used in Level 3 measurements and about reasonably possible alternative inputs.

Transfers between Levels 1, 2, and 3

BC13. Paragraph 820-10-50-2(c)(3) of the Accounting Standards Codification requires disclosure of the amounts of transfers in and/or out of Level 3 inputs. Financial statement users have indicated that similar information for significant transfers between all input Levels (that is, Levels 1, 2, and 3) during the reporting period would be useful. IFRS 7, as amended in March 2009, requires the disclosure of that information. Users may use the information about the amounts and reasons for transfers between levels in their assessment of the reporting entity's *quality* of reported earnings and expected future cash flows. The Board agrees that information about significant transfers between Levels 1, 2, and 3 would be useful and should be required.

Activity in Level 3 Fair Value Measurements

BC14. Users have indicated that for fair value measurements using significant unobservable inputs (Level 3), information about movements due to purchases, sales, issuances, and settlements is most helpful if it is not presented as a single net amount (for example, see paragraph 144(b), page 47, of the IASB's October 2008 Expert Advisory Panel's report). Therefore, the proposed amendments would require presentation of this activity on a *gross* rather than *net* basis.

Effective Date

BC15. The Board believes that information necessary to comply with the new disclosure requirements and the clarifications of existing disclosure requirements would be available without significant changes to entities' information systems except for the sensitivity disclosures for Level 3 fair value measurements. Furthermore, the amendments in this proposed Update do not require retroactive application to periods before their adoption. So that users can benefit from the improved disclosures as soon as practicable, the Board has proposed the effective date of reporting periods ending after December 15, 2009, except for the sensitivity disclosures for Level 3 fair value measurements, which would be effective for periods ending after March 15, 2010.

Benefits and Costs

BC16. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

Benefits

BC17. Users have told the Board that a greater level of disaggregation information about fair value measurements as well as more robust disclosures about valuation techniques and assumptions related to Level 2 and Level 3 measurements would be useful in their analysis of an entity's performance and expected future cash flows. Furthermore, with respect to fair value measurements using significant unobservable inputs (Level 3), many users have concerns about the reliability of the estimate, and, therefore, would benefit from information about the potential *range* in fair value measurements if the reporting entity were to use reasonably possible alternative inputs. And, users have said that because of the different degrees of reliability of Level 1, Level 2, and Level 3 fair value measurements, information about significant transfers between the three levels and the reasons for such transfers would be useful.

Costs

BC18. The Board believes that the information required to comply with the amendments in this proposed Update generally should be available to reporting entities without significant changes to their current information systems except for the sensitivity disclosures for Level 3 measurements. The volunteer preparer participants have expressed concerns about the costs, usefulness, and operationality of the sensitivity disclosures. Some Board members also have concerns about the operationality and timing of the proposed sensitivity disclosures. Therefore, the Board decided to seek additional input from both preparers and users (by including a specific question for respondents to this proposed Update) to refine the Board's cost-benefit assessment of those disclosures.

Amendments to the XBRL Taxonomy

The following elements should be added to or modified in the XBRL taxonomy as a result of the amendments in this proposed Update. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded.** If an existing element was modified it has been marked to reflect any changes.)

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Transfers In	This element represents transfers in to Level 3 of assets measured at fair value on a recurring basis using unobservable inputs, which have taken place during the period.	820-10-50-2-c-3	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Transfers Out	This element represents transfers out of Level 3 of assets measured at fair value on a recurring basis using unobservable inputs, which have taken place during the period.	820-10-50-2-c-3	815000
UNOBSERVABLE			
Fair Value, Assets and Liabilities Measured on Recurring Basis, Reason for Significant Transfers in and out of Level 3 Fair Value Measurement	Disclosure of the reasons for significant transfers in and/or out of Level 3 fair value measurement.	820-10-50-2-c-3	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Gain (Loss) Included in Other Comprehensive Income*	This element represents total gains or losses for the period (realized and unrealized), arising from assets measured at fair value on a recurring basis using unobservable inputs (Level 3), which are included in other comprehensive income (a separate component of shareholders' equity).	820-10-50-2-c-1A	815000
OBSERVABLE/RECURRING			

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Measurement with Observable Inputs, Transfers between Level 1 and Level 2 Fair Value Measurements [Text Block]	This element represents significant transfers between Level 1 and Level 2 of fair value hierarchy and the reasons for those transfers.	820-10-50-2-bb	815000
Fair Value, Assets Measured on Recurring Basis, Observable Inputs, Description and Development [Text Block]	This item represents, for each major category of assets and liabilities, a description of the inputs and the information used to develop the inputs for fair value measurements using observable inputs (Level 2).	820-10-20-2-e	815000
Fair Value, Assets and Liabilities Measured on Recurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate major category of assets and liabilities.	820-10-50-2-e	815000
Fair Value, Assets and Liabilities Measured on Recurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate major category of assets and liabilities.	820-10-50-2-e	815000
OBSERVABLE/ NONRECURRING			
Fair Value, Assets Measured on Nonrecurring Basis, Unobservable Inputs, Description and Development [Text Block]*	**This item represents, for each major category of assets and liabilities, a description of the inputs and the information used to develop the inputs for fair value measurements using significant unobservable inputs (Level 3).**	**820-10-50-2-e**	**815000**

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Assets and Liabilities Measured on Nonrecurring Basis, Valuation Techniques [Text Block]	This element discloses the valuation techniques used to measure fair value, and a discussion of changes in valuation techniques, if any, applied during the period to each separate major category of assets and liabilities.	820-10-50-2-e	815000
Fair Value, Assets and Liabilities Measured on Nonrecurring Basis, Inputs [Text Block]	This element discloses the inputs used to measure fair value, and a discussion of changes in inputs, if any, applied during the period to each separate major category of assets and liabilities	820-10-50-2-e	815000
UNOBSERVABLE/ RECURRING/ASSET			
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Purchases	This element represents purchases, which have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Sales	This element represents sales, which have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Issuances	This element represents issuances, which have taken place during the period in relation to assets measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset, Settlements	This element represents settlements, which have taken place during the period in relation to assets measured at fair value on a recurring	820-10-50-2-c-2	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
	basis using unobservable inputs (Level 3).		
UNOBSERVABLE/ RECURRING/LIABILITY			
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Transfers In	This element represents transfers in to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3), which have taken place during the period.	820-10-50-2-c-3	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Transfers Out	This element represents transfers out of liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3), which have taken place during the period.	820-10-50-2-c-3	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Purchases	This element represents purchases, which have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Sales	This element represents sales, which have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Issuances	This element represents issuances, which have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability, Settlements	This element represents settlements, which have taken place during the period in relation to liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3).	820-10-50-2-c-2	815000
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Effect of Changes to Reasonably Possible Alternative Inputs [Text Block]	Describes disclosed pertinent information about the effect of reasonably possible alternative inputs for fair value measurements using significant unobservable inputs (Level 3).	820-10-50-2-f	815000
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Effect of Changes to Reasonably Possible Alternative Inputs [Table]	This element discloses pertinent information about the effect of reasonably possible alternative inputs for fair value measurements using significant unobservable inputs (Level 3).	820-10-50-2-f	815000
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Effect of Changes to Reasonably Possible Alternative Inputs [Abstract]		820-10-50-2-f	815000
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Effect of Changes to Reasonably Possible Alternative Inputs [Axis]	Discloses information about the valuation basis and main inputs of fair value assumptions and the effect of reasonably possible alternative inputs.	820-10-50-2-f	815000
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Description [Domain]		820-10-50-2-f	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Available for Sale [Member]	For an unclassified balance sheet, this item represents investments in debt and equity securities, which are categorized neither as held-to-maturity nor trading. Such securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity (other comprehensive income), unless the Available-for-sale Security is designated as a hedge or is determined to have had an other than temporary decline in fair value below its amortized cost basis. All or a portion of the unrealized holding gain or loss of an Available-for-sale Security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, as should other than temporary declines in fair value below costs basis.	820-10-50-2-f	815000
Hedge Fund [Member]	Investments in registered hedge funds.	820-10-50-2-f	815000
Derivatives [Member]	Fair values as of the balance sheet date of all assets resulting from contracts that meet the criteria of being accounted for as derivative instruments, net of the effects of master netting arrangements.	820-10-50-2-f	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Assets and Liabilities Measured on a Recurring Basis, Effect of Changes to Reasonably Possible Alternative Inputs, Qualitative and Quantitative Disclosures [Line Items]	Line items represent financial concepts included in a table. These concepts are used to disclose reportable information associated with domain members defined in one or many axes to the table.	820-10-50-2-f	815000
Valuation Basis	Describes the valuation basis used to compute fair value.	820-10-50-2-f	815000
Main Inputs	Describes the main inputs used to compute fair value.	820-10-50-2-f	815000
Fair Value	Describes the fair value of the Level 3 assets and liabilities	820-10-50-2-f	815000
Effect of Reasonably Possible Alternative Inputs	Discloses information about the increase or decrease in fair value measurement.	820-10-50-2-f	815000
Increase in Fair Value	Discloses information about the increase in fair value measurement.	820-10-50-2-f	815000
Decrease in Fair Value	Discloses information about the decrease in fair value measurement.	820-10-50-2-f	815000
Fair Value, Assets Measured on Recurring Basis [Table]*	**Summarization of information required and determined to be disclosed concerning assets, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.**	**820-10-50-2a, 2b**	**815000**
Fair Value, Assets Measured on Recurring Basis, Disclosure Items [Axis]*	**This element represents a number of concepts, which are required or desirable disclosure items concerning assets, including [financial] instruments that are classified in**	**820-10-50-2a, 2b**	**815000**

Standard Label	Definition	Codification Reference	Taxonomy Reference
	stockholders' equity, which are measured at fair value on a recurring basis.		
Fair Value, Assets Measured on Recurring Basis, Disclosure Items [Domain]*	Provides the general information items required or determined to be disclosed with respect to assets, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Estimate of Fair Value, Fair Value Disclosure [Member]*	This element represents the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined) for which it is practicable to estimate such value.	820-10-50-2a, 2b	815000
Fair Value, Inputs, Level 1 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 1 of the fair value measurements hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Inputs, Level 2 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 2 of the fair value measurements hierarchy. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market); (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
	and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).		
Fair Value, Inputs, Level 3 [Member]*	**This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 3 of the fair value measurements hierarchy. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available; such as, when there is little, if any, market activity for the asset or liability at the measurement date.**	**820-10-50-2a, 2b**	**815000**
RECURRING/ASSET			
Fair Value, Assets Measured on Recurring Basis, Financial Statement Captions [Line Items]*	**This element represents certain statement of financial position asset captions, which represent a class of assets, or which may**	**820-10-50-2a, 2b**	**815000**

Standard Label	Definition	Codification Reference	Taxonomy Reference
	include an individual asset, measured at fair value on a recurring basis.		
Fair Value, Assets Measured on Recurring Basis, Trading Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Assets Measured on Recurring Basis, Trading Securities, Equity Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Assets Measured on Recurring Basis, Trading Securities, Debt Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Assets Measured on Recurring Basis, Available-for-sale Securities, Residential Mortgage-Backed Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Assets Measured on Recurring Basis, Available-for-sale Securities, Commercial Mortgage-Backed Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Assets Measured on Recurring Basis, Available-for-sale Securities, Collateralized Debt Obligations	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Assets Measured on Recurring Basis, Available-for-sale Securities, U.S. Treasury Securities	This element represents a certain statement of financial position asset caption, which represents a class of assets, or which may include an individual asset, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
RECURRING/LIABILITY			
Fair Value, Liabilities Measured on Recurring Basis [Table]*	**Summarization of information required and determined to be disclosed concerning assets, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.**	**820-10-50-2a, 2b**	**815000**
Fair Value, Liabilities Measured on Recurring Basis, Disclosure Items [Axis]*	**This element represents a number of concepts, which are required or desirable disclosure items concerning assets, including [financial] instruments that are classified in**	**820-10-50-2a, 2b**	**815000**

Standard Label	Definition	Codification Reference	Taxonomy Reference
	stockholders' equity, which are measured at fair value on a recurring basis.		
Fair Value, Liabilities Measured on Recurring Basis, Disclosure Items [Domain]*	This element represents a number of concepts, which are required or desirable disclosure items concerning liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Estimate of Fair Value, Fair Value Disclosure [Member]*	This element represents the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined) for which it is practicable to estimate such value.	820-10-50-2a, 2b	815000
Fair Value, Inputs, Level 1 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 1 of the fair value measurements hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Inputs, Level 2 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 2 of the fair value measurements hierarchy. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market); (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
	rates); or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).		
Fair Value, Inputs, Level 3 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' equity, which are measured at fair value on either a recurring or nonrecurring basis and fall within Level 3 of the fair value measurements hierarchy. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available; such as, when there is little, if any, market activity for the asset or liability at the measurement date.	820-10-50-2a, 2b	815000
Fair Value, Liabilities Measured on Recurring Basis, Financial Statement Captions [Line Items]*	This element represents certain statement of financial position liability captions, which represent a class of liabilities, or which may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Liabilities Measured on Recurring Basis, Long-term Debt	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or which may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Liabilities Measured on Recurring Basis, Interest Rate Contracts	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or which may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000
Fair Value, Liabilities Measured on Recurring Basis, Foreign Exchange Contracts	This element represents a certain statement of financial position asset caption, which represents a class of liabilities, or which may include an individual liability, measured at fair value on a recurring basis.	820-10-50-2a, 2b	815000

*Existing element.

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No. 2009-05
August 2009

Fair Value Measurements and Disclosures (Topic 820)

Measuring Liabilities at Fair Value

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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August 2009

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Some entities have expressed concern that there may be a lack of observable market information to measure the fair value of a liability. In many cases, an entity would extinguish a liability by settling the obligation directly with the counterparty rather than by paying another entity to assume the existing obligation. In the limited circumstances when an existing liability may be transferred to a new obligor, the transferee may not have the same nonperformance risk as the transferor. Furthermore, some entities question how to measure the fair value of a liability in a hypothetical transaction when a restriction prevents such a transfer. They assert that, unlike an asset for which observable data may simply be limited, there is no observable data available to measure a liability because that liability is restricted from being transferred. Additionally, some liabilities (for example, bonds) are traded in the marketplace as assets. Questions have arisen about whether prices of debt instruments traded as assets represent the fair value of that instrument for the issuer (obligor). Because of these issues, some entities believe that the consistency in the application of *FASB Accounting Standards Codification*™ Topic 820 (Fair Value Measurements and Disclosures) could be improved if the Board were to provide guidance on the fair value measurement of liabilities.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that measure liabilities at fair value within the scope of Topic 820.

What Are the Key Provisions?

This Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures—Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

1. A valuation technique that uses:
   a. The quoted price of the identical liability when traded as an asset
   b. Quoted prices for similar liabilities or similar liabilities when traded as assets.
2. Another valuation technique that is consistent with the principles of Topic 820. Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability.

The amendments in this Update also clarify that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

How Are the Key Provisions Different from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. Therefore, preparers, investors, and other users of financial statements will have a better understanding of how the fair value of liabilities was measured, helping to improve consistency in the application of Topic 820.

When Is the Guidance in This Update Effective?

The guidance provided in this Update is effective for the first reporting period (including interim periods) beginning after issuance.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Under U.S. GAAP, the fair value of a liability is measured in accordance with the requirements of Topic 820. Under IFRS, the fair value of a liability is measured in accordance with the requirements of the appropriate IFRS. The amendments in this Update do not have an effect on existing IFRS guidance.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The following are amendments to the Accounting Standards Codification as a result of this Update. In some cases, not only are the amended paragraphs shown but the preceding and following paragraphs also are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 820-10

2. Add paragraphs 820-10-35-16A through 35-16G, with a link to transition paragraph 820-10-65-5, as follows:

820-10-35-16A A fair value measurement assumes that a liability is exchanged in an orderly transaction between market participants. However, liabilities are rarely transferred in the marketplace because of contractual or other legal restrictions preventing the transfer of liabilities. Some liabilities (for example, debt obligations), however, are traded in the marketplace as assets.

820-10-35-16B If a quoted price in an active market for the identical liability is available, it represents a Level 1 measurement. In circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity shall measure fair value using one or more of the following techniques:

a. A valuation technique that uses:
   1. The quoted price of the identical liability when traded as an asset
   2. Quoted prices for similar liabilities or similar liabilities when traded as assets.
b. Another valuation technique that is consistent with the principles of this Topic. Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

820-10-35-16C In all instances, the reporting entity shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Furthermore, a reporting entity shall apply all applicable guidance in this Topic in determining fair value when the volume and level of activity for an asset or liability have significantly decreased and in identifying transactions that are not orderly.

820-10-35-16D When measuring the fair value of a liability using the quoted price of the liability when traded as an asset, the reporting entity shall not adjust the quoted price of the asset for the effect of a restriction preventing its sale. However, the quoted price of the liability when traded as an asset shall be adjusted for factors specific to the asset that are not applicable to the fair value measurement of the liability. Some circumstances in which a reporting entity shall consider whether the quoted price of the asset should be adjusted include the following:

a. The quoted price for the asset relates to a similar (but not identical) liability traded as an asset.
b. The unit of account for the asset is not the same as for the liability (for example, the quoted price for the asset includes the effect of a third-party credit enhancement). See paragraph 820-10-35-18A for further guidance.

820-10-35-16E When estimating the fair value of a liability, a reporting entity shall not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability (see paragraphs 820-10-55-71 through 55-76). The effect of a restriction that prevents the transfer of a liability is either implicitly or explicitly already included in the other inputs to the fair value measurement. For example, at the transaction date, both the creditor and the obligor are willing to accept the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction already being included in the transaction price, a separate input or adjustment to an existing input into the fair value measurement of a liability is not required at the transaction date to reflect the effect of the restriction on transfer. Additionally, a separate input or adjustment to other inputs into the fair value measurement of a liability is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

820-10-35-16F In addition, there are two fundamental differences between the fair value measurement of an asset and a liability that justify different treatments for asset restrictions and for liability restrictions. First, restrictions on the transfer of a liability relate to performance under the obligation (that is, the reporting entity is legally obligated to satisfy the obligation and needs to do something to be relieved of the obligation), whereas restrictions on the transfer of an asset relate to the marketability of the asset. Second, virtually all liabilities include a restriction preventing the transfer of the liability, whereas most assets do not include a similar restriction. As a result, the effect of a restriction preventing the transfer of a liability would, theoretically, be consistent for all liabilities. However, the inclusion of a restriction preventing the sale of the asset typically results in a lower fair value for the restricted asset versus the nonrestricted asset, all other factors being equal.

820-10-35-16G When measuring the fair value of a liability using a valuation technique, a reporting entity shall ensure that the fair value measurement is consistent with the principles of this Topic, that is, the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. For example, when using a technique based on the amount at the measurement date that the reporting entity would receive to enter into the identical liability (see paragraph 820-10-35-16B), the inputs shall reflect the assumptions that market participants would use (or the reporting entity's own assumption about the assumptions that market participants would use) in the principal or most advantageous market for issuance of a liability with the same contractual terms.

3. Amend paragraph 820-10-35-41, with a link to transition paragraph 820-10-65-5, as follows:

820-10-35-41 A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as discussed in ~~the following~~ paragraphs 820-10-35-16D, 820-10-35-42, and ~~paragraph~~ 820-10-35-43.

4. Add paragraph 820-10-35-41A, with a link to transition paragraph 820-10-65-5, as follows:

820-10-35-41A A Level 1 fair value measurement for the liability is a quoted price in an active market for the identical liability at the measurement date. In addition, the quoted price for the identical liability when traded as an asset in an active market also is a Level 1 fair value measurement for that liability when no adjustments to the quoted price of the asset are required. However, a reporting entity needs to determine whether the quoted price for the identical liability when traded as an asset in an active market should be adjusted for factors specific to the liability and the asset (see paragraph 820-10-35-16D). Any adjustment to the quoted price of the asset shall render the fair value measurement of the liability a lower level measurement.

5. Amend paragraph 820-10-35-50, with a link to transition paragraph 820-10-65-5, as follows:

820-10-35-50 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

a. The condition and/or location of the asset or liability
b. The extent to which the inputs relate to items that are comparable to the asset or liability, including those factors discussed in paragraph 820-10-35-16D
c. The volume and level of activity in the markets within which the inputs are observed.

6. Add paragraphs 820-10-55-65 through 55-76 and related headings, with a link to transition paragraph 820-10-65-5, as follows:

> > Example 9: Measuring Liabilities

820-10-55-65 The following Cases illustrate the measurement of liabilities:

a. Asset Retirement Obligation (Case A)
b. Debt Obligation: Quoted Price (Case B)
c. Debt Obligation: Present Value Technique (Case C).

> > > **Case A: Asset Retirement Obligation**

820-10-55-66 On January 1, 20X1, Entity A completes construction of and places into service an offshore oil platform. The entity is legally required to dismantle and remove the platform at the end of its useful life, which is estimated to be 10 years. According to the guidance in paragraph 410-20-25-4, the entity is required to recognize, at fair value, an asset retirement obligation.

820-10-55-67 On the basis of the guidance in paragraph 410-20-30-1, Entity A uses the expected present value technique to measure the fair value of the asset retirement obligation.

820-10-55-68 If Entity A was contractually allowed to transfer its asset retirement obligation to a market participant, Entity A believes a market participant would use all of the following inputs, probability-weighted as appropriate, in determining the price it would expect to receive:

a. Labor costs
b. Allocation of overhead costs
c. Profit on labor and overhead costs
d. Effect of inflation on estimated costs and profits
e. Risk premium for bearing the uncertainty inherent in cash flows, other than inflation
f. Time value of money, represented by the risk-free rate
g. Nonperformance risk relating to the liability, including Entity A's own credit risk.

820-10-55-69 The significant assumptions used in Entity A's estimate of fair value are as follows:

a. Labor costs are based on current marketplace wages required to hire contractors to dismantle and remove offshore oil platforms. Entity A assigns probability assessments to a range of cash flow estimates as follows.

Cash Flow Estimate	Probability Assessment	Expected Cash Flows
$ 100,000	25%	$ 25,000
$ 125,000	50%	62,500
$ 175,000	25%	43,750
		$ 131,250

The probability assessments are based on Entity A's experience with fulfilling obligations of this type and its knowledge of the market.

b. Entity A estimates allocated overhead and equipment operating costs using the rate it applies to labor costs (80 percent of expected labor costs). This is consistent with the cost structure of market participants.

c. A contractor typically adds a markup on labor and allocated internal costs to provide a profit margin on the job. The profit margin used (20 percent) represents Entity A's understanding of the operating profit that contractors in the industry generally earn to dismantle and remove offshore oil platforms. Entity A believes this rate is consistent with the rate a market participant would demand as a return for bearing the obligation.

d. Entity A assumes a rate of inflation of 4 percent over the 10-year period on the basis of available market data.

e. A contractor would typically demand and receive a premium (market risk premium) for bearing the uncertainty inherent in locking in today's price for a project that will not occur for 10 years. Entity A estimates the amount of that premium to be 5 percent of the expected cash flows, adjusted for inflation.

f. The risk-free rate of interest for a 10-year maturity on January 1, 20X1, is 5 percent. Entity A adjusts that rate by 3.5 percent to reflect its risk of nonperformance. Therefore, the discount rate used to compute the present value of the cash flows is 8.5 percent.

820-10-55-70 Entity A believes that its assumptions would be used by market participants. In addition, Entity A does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability. As illustrated in the following table, Entity A estimates the fair value of its liability for the asset retirement obligation to be $194,879.

		Expected Cash Flows 1/1/X1
Expected labor costs	$	131,250
Allocated overhead and equipment costs (.80 x $131,250)	$	105,000
Contractor's profit markup [.20 x ($131,250 + $105,000)]	$	47,250
Expected cash flows before inflation adjustment	$	283,500
Inflation factor (4% for 10 years)		1.4802
Expected cash flows adjusted for inflation	$	419,637
Market-risk premium (.05 x $419,637)	$	20,982
Expected cash flows adjusted for market risk	$	440,619
Expected present value using discount rate of 8.5% for 10 years	$	194,879

> > > Case B: Debt Obligation: Quoted Price

820-10-55-71 On January 1, 20X1, Entity B issues at par a $2 million BBB-rated exchange-traded 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity B has elected to account for this instrument under the fair value option.

820-10-55-72 On December 31, 20X1, the instrument is trading as an asset in an active market at $929 per $1,000 of par value after payment of accrued interest. Entity B uses the quoted price for the asset in an active market as its initial input into the fair value measurement of its liability ($929 × [$2 million ÷ $1,000] = $1,858,000). In determining whether the quoted price for the asset in an active market represents the fair value of the liability, Entity B evaluates whether the quoted price for the asset includes the effect of factors not applicable to the fair value measurement of a liability, for example, whether the quoted price for the asset includes the effect of third-party credit enhancements. Entity B determines that no adjustments are required to the quoted price of the asset. Accordingly, Entity B concludes that the fair value of its debt instrument at December 31, 20X1, is $1,858,000. Entity B categorizes and discloses the fair value measurement of its debt instrument as a Level 1 measurement.

> > > Case C: Debt Obligation: Present Value Technique

820-10-55-73 On January 1, 20X1, Entity C issues at par in a private placement a $2 million BBB-rated 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity C has elected to account for this instrument under the fair value option.

820-10-55-74 At December 31, 20X1, Entity C still carries a BBB credit rating. Market conditions, including available interest rates, credit spreads for a BBB-quality credit rating and liquidity, remain unchanged from the issuance date of the debt instrument. However, Entity C's credit spread has deteriorated by 50 basis points due to a change in its risk of nonperformance. After considering all market conditions, Entity C concludes that if it was to issue the instrument at the measurement date, the instrument would bear a rate of interest of 10.5 percent or Entity C would receive less than par in proceeds from the issuance of the instrument.

820-10-55-75 For the purpose of this example, the fair value of Entity C's liability is calculated using a present value technique. Entity C believes a market participant would use all of the following inputs (consistent with paragraph 820-10-55-5) in determining the price the market participant would expect to receive to assume Entity C's obligation:

a. Terms of the debt instrument, including all of the following:
   1. Coupon interest rate of 10 percent
   2. Principal amount of $2 million
   3. Term of 4 years.
b. Change in risk of nonperformance from the date of issuance of 50 basis points.

820-10-55-76 On the basis of its present value technique, Entity C concludes that the fair value of its liability at December 31, 20X1, is $1,968,641. Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because Entity C's obligation is a financial liability, Entity C believes the interest rate already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, Entity C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

7. Add paragraph 820-10-65-5 and related heading as follows:

> Transition Related to Accounting Standards Update 2009-05, Measuring Liabilities under Topic 820

820-10-65-5 The following represents the transition and effective date information related to Accounting Standards Update **2009-05:**

a. The pending content that links to this paragraph shall be effective for the first reporting period, including interim periods, beginning after issuance.
b. Early application is permitted if financial statements for prior periods have not been issued.
c. Revisions resulting from a change in valuation technique or its application shall be accounted for as a change in accounting estimate (see the guidance beginning in paragraph 250-10-45-17).

d. <u>In the period of adoption, a reporting entity shall disclose a change, if any, in valuation technique and related inputs resulting from the application of the pending content that links to this paragraph, and quantify the total effect, if practicable.</u>

Amendment to Subtopic 825-10

8. Amend paragraph 825-10-55-3, with a link to transition paragraph 820-10-65-5, as follows:

825-10-55-3 Bank A might disclose the following.

Note V: Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments. For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment securities and trading account assets. For securities and derivative instruments held for trading purposes (which include bonds, interest rate futures, options, interest rate swaps, securities sold not owned, caps and floors, foreign currency contracts, and forward contracts) and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loan receivables. For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Long-term debt. Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

[For ease of use, the existing guidance for this paragraph, which is unaffected by this Update, has been omitted.]

Status Section

9. Amend paragraph 820-10-00-1 as follows:

Paragraph Number	Action	Accounting Standards Update	Date
820-10-35-16A	Added	2009-05	08/26/2009
820-10-35-16B	Added	2009-05	08/26/2009
820-10-35-16C	Added	2009-05	08/26/2009
820-10-35-16D	Added	2009-05	08/26/2009
820-10-35-16E	Added	2009-05	08/26/2009
820-10-35-16F	Added	2009-05	08/26/2009
820-10-35-16G	Added	2009-05	08/26/2009
820-10-35-41	Amended	2009-05	08/26/2009
820-10-35-41A	Added	2009-05	08/26/2009
820-10-35-50	Amended	2009-05	08/26/2009
820-10-55-65	Added	2009-05	08/26/2009
820-10-55-66	Added	2009-05	08/26/2009
820-10-55-67	Added	2009-05	08/26/2009
820-10-55-68	Added	2009-05	08/26/2009
820-10-55-69	Added	2009-05	08/26/2009
820-10-55-70	Added	2009-05	08/26/2009
820-10-55-71	Added	2009-05	08/26/2009
820-10-55-72	Added	2009-05	08/26/2009
820-10-55-73	Added	2009-05	08/26/2009
820-10-55-74	Added	2009-05	08/26/2009
820-10-55-75	Added	2009-05	08/26/2009
820-10-55-76	Added	2009-05	08/26/2009
820-10-65-5	Added	2009-05	08/26/2009

10. Amend paragraph 825-10-00-1 as follows:

Paragraph Number	Action	Accounting Standards Update	Date
825-10-55-3	Amended	2009-05	08/26/2009

The amendments in this Accounting Standards Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Amendments to the XBRL Taxonomy

The following elements should be added to the XBRL taxonomy as a result of the amendments in this Update.

Standard Label	Definition	Codification Reference	Taxonomy Reference
Fair Value, Liabilities Measured on Recurring Basis, Debt Instrument, Valuation Technique	This element represents the inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.	820-10-65-5 820-10-50-2	460000
Fair Value, Liabilities Measured on Recurring Basis, Debt Instrument, Qualification of Change in Valuation Techniques	The effect of the change in valuation techniques and related inputs.	820-10-65-5	460000