# SUMMARY OF BOARD DECISIONS

*Summary of Board decisions are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions are included in an Exposure Draft for formal comment only after a formal written ballot. Decisions in an Exposure Draft may be (and often are) changed in redeliberations based on information provided to the Board in comment letters, at public roundtable discussions, and through other communication channels. Decisions become final only after a formal written ballot to issue a final standard.*

**April 2, 2009 Board Meeting**

**Determining whether a market is not active and a transaction is not distressed**. The Board discussed comment letters received on proposed FSP FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*. In response to comment letters and additional feedback received, the Board decided to make significant revisions to the proposed FSP. The Board decided that the final FSP would

1. Affirm that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions (that is, in the inactive market).

2. Clarify and include additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active.

3. Eliminate the proposed presumption that all transactions are distressed (not orderly) unless proven otherwise. The FSP will instead require an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence.

4. Include an example that provides additional explanation on estimating fair value when the market activity for an asset has declined significantly.

5. Require an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of the FSP and to quantify its effects, if practicable.

6. Apply to all fair value measurements when appropriate.

The Board also affirmed its previous decision that the FSP would be applied prospectively and that retrospective application would not be permitted. The Board decided that the FSP would be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Board decided that an entity early adopting this FSP must also early adopt FSP FAS 115-2, FAS 124-2, and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. Additionally, if the entity elects to early adopt FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* it must also elect to early adopt this FSP and FSP FAS 115-2, FAS 124-2, and EITF 99-20-2.

The Board directed the staff to proceed to a draft of the final FSP for vote by written ballot.

**Recognition and presentation of other-than-temporary impairments**. The Board discussed comment letters received on proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments*. The Board made the following decisions in response to comment letters and additional feedback received:

*Scope*

1. The Board decided that the change to existing guidance for determining whether an impairment is other than temporary should be limited to debt securities.

*Recognition*

2. The Board decided to replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert

   a. It does not have the intent to sell the security; and

   b. It is more likely than not it will not have to sell the security before recovery of its costs basis.

3. The guidance will incorporate examples of factors from existing literature that should be considered in determining whether a debt security is other-than-temporarily impaired and how those factors interact with the requirement to assert that the entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis.

4. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

5. An entity will be required to recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are additional credit losses.

6. The FSP will include guidance stipulating that credit losses should be measured on the basis of an entity's estimate of the decrease in expected cash flows, including those that result from an increase in expected prepayments.

7. The guidance will clarify that existing premiums or discounts and subsequent changes in estimated cash flows or fair value should continue to be accounted for in accordance with existing guidance (for example, EITF Issue No. 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").

*Presentation*

8. An entity will be required to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income.



9. An entity will be required to present separately in the financial statement where the

components of other comprehensive income are reported, amounts recognized in accumulated other comprehensive income related to the noncredit portion of other-than-temporary impairments recognized for available-for-sale and held-to-maturity debt securities.

*Disclosures*

10. The disclosure requirements of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* will be modified to require an entity to provide the following:

    a. The cost basis of available-for-sale and held-to maturity debt securities by major security type

    b. The methodology and key inputs, such as performance indicators of the underlying assets in the security, loan to collateral value ratios, third-party guarantees, levels of subordination, and vintage, used to measure the portion of an other-than-temporary impairment related to credit losses by major security type

    c. A rollforward of amounts recognized in earnings for debt securities for which an other-than-temporary impairment has been recognized and the noncredit portion of the other-than-temporary impairment that has been recognized in other comprehensive income.

11. Statement 115 and FSP FAS 115-1 and FAS 124-1 will also be modified to require that major security classes be based on the nature and risks of the security and additional types of securities will be included in the list of major security types listed in Statement 115.

12. The above additional disclosures, as well as all existing Statement 115 and FSP FAS 115-1 and FAS 124-1 disclosures, will be required for interim periods

When adopting the new guidance, an entity will be required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-temporary impairment from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery. The cost basis used to calculate accretable yield will also be adjusted to reflect this adjustment (that is, the entity will no longer accrete the noncredit component of a previously recognized other-than-temporary impairment through earnings).

The Board decided that the FSP will be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Board decided that an entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed.* Additionally, if the entity elects to early adopt FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* or FSP FAS 157-4, it must also elect to early adopt this FSP.

The Board directed the staff to proceed to a draft of the final FSP for vote by written ballot.

**Interim disclosures about fair value of financial instruments**. The Board redeliberated proposed FSP FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments*, in light of comments received and decided to proceed to a final FSP. The final FSP will amend FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments,* to require an entity to provide disclosures about fair value of financial instruments in interim financial information.

The Board affirmed its previous decision that the FSP would apply to all financial instruments within the scope of Statement 107. The Board also affirmed its previous decision to require entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments, in both interim financial statements as well as annual financial statements.

The Board decided that only public entities would be required to provide the fair value disclosures in interim financial information.

The Board decided that the FSP would be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Board decided that an entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed,* and FSP FAS 115-2, FAS 124-2, and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments*.

The Board directed the staff to proceed to a draft of the final FSP for vote by written ballot.

**Insurance contracts**. The Board continued deliberating the joint project on accounting for insurance contracts by discussing what cash flows an entity would use in measuring the fulfillment value of an insurance contract.

The Board agreed that a measurement of the fulfillment value of an insurance contract should use expected cash flows rather than a best estimate of cash flows. The Board also agreed that those expected cash flows should be updated each period.

The Board discussed whether market inputs should be part of the measurement of cash flows when a fulfillment value notion is used. The Board agreed that the measurement of cash flows should consider all available information that represents the fulfillment of the insurance contract. All available information includes, but is not limited to, industry data, historical data of an entity's costs, and market inputs when those inputs are relevant to the fulfillment of the contract.

**Conceptual framework: objective and qualitative characteristics**. The Board reviewed responses to the Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information,* and affirmed the proposals in the chapter on Objective, including the proposals on the objective of financial reporting and the primary user group. The Board decided to clarify that financial reports do not necessarily exclude forward-looking or prospective information. The description of an economic phenomenon should be amended to reflect this decision.

The Board directed the staff to proceed to drafting:

1. The final versions of the chapters on the objective of financial reporting and the qualitative characteristics of and constraints on financial reporting

2. The Exposure Draft on the reporting entity concept.