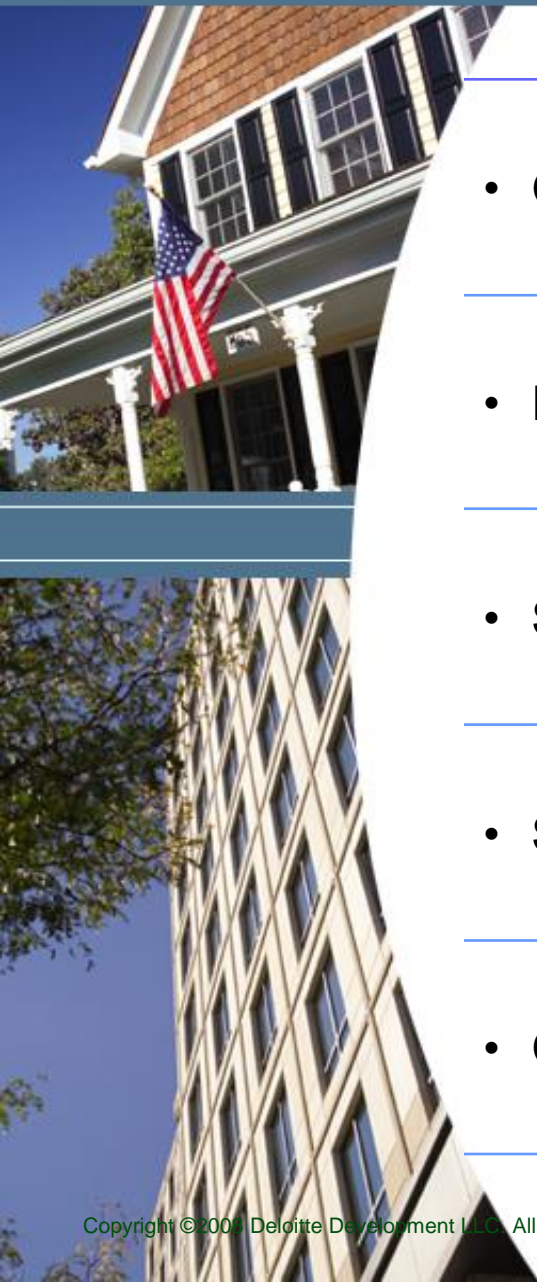




Fair Value Update

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- **Overview of SFAS 157 - *Fair Value Measurement***
 - **Determining Fair Value in the Current Market**
 - **SEC's Current Response to Fair Value**
 - **SEC's Proposed IFRS Roadmap**
 - **Q&A**

Overview of SFAS 157

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 between market participants at the measurement date.”*

- Seller’s perspective
- Price used to measure fair value (FV) is an exit price
- FV measurement shall include all assumptions that a market participant (buyer) would use in pricing

- Scope of the Standard
 - Applies to accounting standards that require or permit FV measurements
 - Does not eliminate practicability exceptions to FV measurements
- Presents a comprehensive definition of FV
 - Provides a hierarchy for valuation inputs
 - Eliminates use of blockage factors for quoted prices in active markets
 - Requires consideration of the issuer's own credit in valuation of liabilities
 - Eliminates deferral of unrealized inception gains under EITF 02-3
- Expands disclosures about FV measurements
 - Inputs used to develop the measurements
 - For Level 3 inputs: the effect of the measurements on earnings for the period by major category of assets and liabilities

- Effective for fiscal years beginning after **November 15, 2008**
- Requires prospective transition
- FASB issued FSP FAS 157-2 for **one-year deferral** for non-financial, non-recurring fair value measurements:
 - Assets and liabilities acquired in a business combination (SFAS 141)
 - Assets and liabilities included in a goodwill or indefinite-lived intangible asset impairment test (SFAS 142)
 - Asset groups in step 2 of the long-lived asset impairment test (SFAS 144)

Determining Fair Value in the Current Market

- Liquidity continues to be the primary issue in today's market
- Determining fair value in a market that is not active
- Developments:
 - SEC and FASB joint press release
 - IASB Expert Advisory Panel October 2008 report:
“Measuring and disclosing the fair value of financial instruments in markets that are no longer active”
 - IASB Staff Summary, October 2008
“Using judgement to measure the fair value of financial instruments when markets are no longer active”
 - FASB issued FSP FAS 157-3
 - Clarified the application of the Standard
 - Provided an example to illustrate key considerations in determining fair value in an inactive market (discount rate)

Objective of Fair Value	Price that would be received to sell an asset (“exit price”)
Distressed Transactions	Evaluation depends on facts and circumstances
Relevance of Observable Data	Observable market data may require significant adjustment
Management’s Assumptions	Assumptions are acceptable when market data does not exist
Third Party Pricing Quotes	Not necessarily determinative if an active market does not exist
Disclosures	Emphasis on unobservable inputs

“Measuring and disclosing the fair value of financial Instruments in markets that are no longer active”

- Not appropriate to conclude that all market activity represents forced liquidations or distress sales
- Not appropriate to conclude automatically that any transaction price is determinative of fair value
- FV is determined based on:
 - Facts, circumstances, and judgments
 - Must include risk adjustments, such as credit and liquidity
 - Broker (or pricing service) quotes
 - Management’s estimates

- Broker (or pricing service) quotes
 - Might be inputs for measuring FV
 - Not necessarily determinative if an active market does not exist
 - In an inactive market, broker might rely more on models with inputs based on available information
 - Company management should
 - Consider the nature of the quotes
 - Place less reliance on broker quotes that do not reflect the result of market transactions

- Management's estimates
 - In some cases, using unobservable inputs might be more appropriate than using observable inputs
 - “Mark-to-model” approach
 - Multiple inputs from different sources might collectively provide the best evidence of FV
 - Weighing in expected cash flows and other relevant information

SEC's Current Response to Fair Value

- Purpose:
 - Urge companies to provide investors with “clearer and more transparent” disclosures about FV measurements and the methods and assumptions underlying these measurements
 - Not to replace or amend existing GAAP requirements
- Contents:
 - Disclose, when material, how credit risk affected FV measurements
 - Consider disclosing how to factor market illiquidity into determination of FV measurement
 - Consider disclosing significant judgments used in classifying FV measurements in the SFAS 157 hierarchy
 - Consider disclosing the use of brokers or pricing services in developing FV measurements

- Purpose:
 - Emergency Economic Stabilization Act of 2008 requires the SEC to conduct a study on mark-to-market (MTM) accounting
 - Study is still in process, results expected January 2009
- Considerations:
 - Effects of such accounting standards on a financial institution's balance sheet
 - Impacts of such accounting on bank failures in 2008
 - Impact of such accounting standards on the quality of financial information available to investors
 - Process used by the FASB in developing accounting standards
 - Advisability and feasibility of modifications to such standards
 - Alternative accounting standards to those provided in SFAS 157

- Suspending FV accounting would deprive investors of critical financial information when it is needed most
- Definition of FV and basic objectives of FV measurement under SFAS 157 are appropriate and should not be changed
- Using “intrinsic” or “economic” values as alternative methods could be based on management’s subjective and discretionary judgments
- Suggested improvements:
 - Clarity in guidance surrounding shifts from Level 2 to Level 3 inputs
 - Provide more examples of valuation methods for various types of assets and liabilities under varying market conditions
 - Additional guidance on presenting in financial statements the periodic changes in asset valuation

First Roundtable addressed the following:

- Is FV the best measurement for all financial assets and liabilities?
 - Accounting guidance on other than temporary impairment (OTTI) are suggested to be revisited
 - Held to maturity (HTM) criteria are too restrictive and are suggested to be revisited
 - Bifurcation of losses and gains into credit and liquidity components may help investors better understand the risks
- Is FV procyclical?
 - Because FV accounting may have a procyclical effect, the capital requirements should be anticyclical
 - Need to distinguish between the role of FV reporting and regulatory capital requirements
 - Current requirements restrict the flow of capital, which exacerbates the credit crisis

Second Roundtable addressed the following:

- Challenges of MTM accounting and potential improvements to accounting standards:
 - FV Accounting is not the cause of the current market turmoil
 - Regulators should look to change the regulatory capital requirements
 - Panelists voiced strong support for independent standard setting, free from any political or regulatory intervention
- Impairment guidance:
 - Align guidance for impairment of investments in debt securities with the guidance for loan impairments
 - Segregate impairment loss between credit and other changes in FV
- Additional disclosures:
 - More comprehensive disclosures that include forward-looking information (i.e. sensitivity analysis)
 - Detailed discussion of techniques and inputs used by management
- Presentation:
 - Improved presentation would enhance transparency and usability

SEC's Proposed IFRS Roadmap

- November 14, 2008, SEC issued IFRS “roadmap” outlining milestones, if achieved, could lead to mandatory adoption to IFRS (beginning 2014)
- Roadmap outlined 7 milestones:
 1. Improvements in accounting standards
 2. Accountability and funding of the IASCF
 3. Improvement in the ability to use interactive data for IFRS reporting
 4. Education and training on IFRSs in the U.S.
 5. Limited early use by eligible entities (option to use IFRSs for fiscal years beginning on or after December 15, 2009)
 6. Anticipated timing of future rule making by the SEC
 7. Implementation of mandatory use
- U.S. issuers that meet both of the following would be eligible for early election:
 - U.S. issuer is globally among the 20 largest listed companies worldwide in its industry
 - IFRSs as issued by the IASB, are used as the basis for financial reporting more often than any other basis of accounting by the 20 largest listed companies in the issuer’s industry

- SEC estimates at least 110 U.S. issuers in 34 industries would be currently eligible in accordance with the criteria
- Permitting certain U.S. issuers the ability to report under IFRSs would supply SEC with valuable information that could help inform the decision
- Issuers that are eligible to use IFRSs would need to obtain a “letter of no objection” from the SEC’s Division of Corporate Finance
- Issuers in specific industries may be subject to various industry guides developed by the SEC’s Division of Corporate Finance

Key Points:

- The proposed roadmap for public comment is a significant step forward, and another indication that U.S. companies should begin assessing the impact IFRS will have on them, and develop their strategy for adoption
- Company's must understand the impacts of IFRS and if they are eligible for early adoption
- Important that companies provide input on the SEC's IFRS roadmap and proposed rule as it is an opportunity to shape the next steps as we move toward eventual mandatory adoption

QUESTIONS ?

INQUIRIES ?

COMMENTS...



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