



FASB and IASB Fair Value Projects

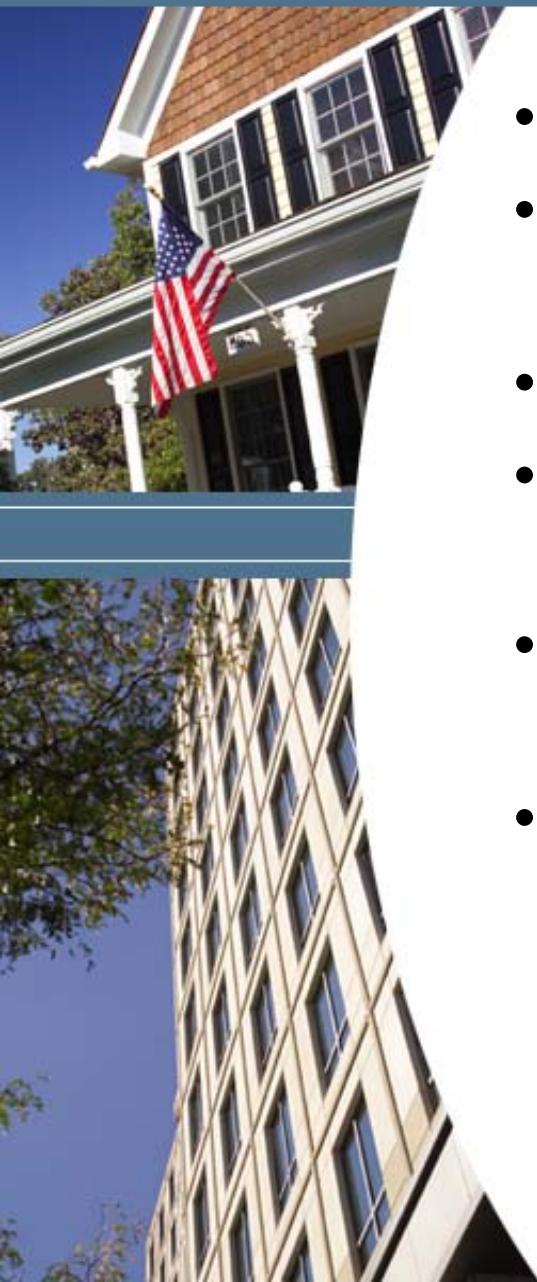
November 13, 2009

Dorsey L. Baskin Jr.

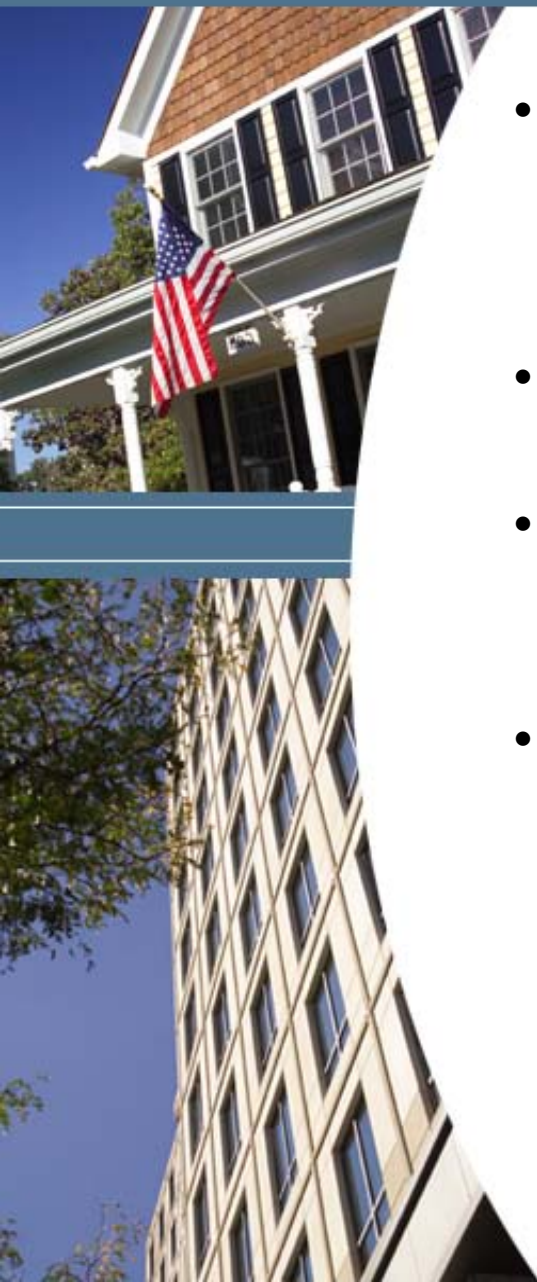
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National Professional Standards Group

- FASB Project on improving Disclosures about Fair Value Measurements
- Overview of recent FASB and IASB fair value recognition and measurement proposals
- Comparison of FASB and IASB proposals

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- **Disaggregation** beyond the balance sheet line item
 - Descriptive disclosures about **significant inputs** for both level 2 and level 3 inputs
 - **Sensitivity** of Level 3 fair value measurements
 - **Transfers** in/out of Level 1 and Level 2
 - » Already required for Level 3
 - **Gross reporting** of changes in Level 3 fair value measurements (currently on a net basis)
 - Intended to be **effective for December 31, 2009** financial statements (except for sensitivity disclosures – 3/31/10)

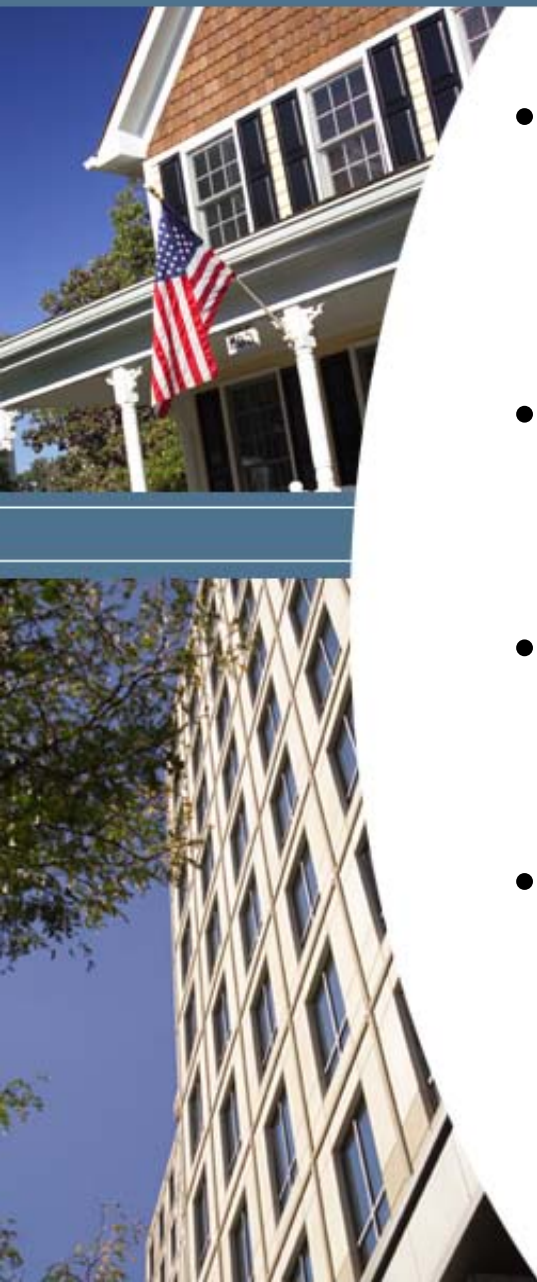
- “Joint” project with the IASB
- FASB to issue single comprehensive exposure draft in late 2009/early 2010
- Final standard to be issued by early 4th quarter 2010
- IASB to issue 3 separate exposure drafts
 - » Classification and measurement (already issued July 2009)
 - » Impairment (October 2009)
 - » Hedge accounting (December 2009)
- Boards have made **tentative** decisions on classification and measurement

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- All financial assets and financial liabilities would be measured at fair value on the balance sheet
 - » Except, FASB would allow an amortized cost option for own qualifying debt
 - Changes in fair value would go through **either** net income or other comprehensive income (OCI)
 - If business strategy and instrument characteristics do not qualify for OCI treatment, then all changes in FV go through net income
 - If business strategy is to hold for investment, may elect to recognize certain assets and liabilities at fair value through OCI
 - » Except changes in fair value attributable to credit would be recognized in earnings
 - » Interest income would be recognized separately in earnings

Presentation of Financial Instruments for which changes in fair value recognized in net income



- Balance sheet
 - » At fair value
- Income statement
 - » Realized and unrealized gains/losses
 - » Will not require separate presentation of interest income/expense or credit losses
- May disclose amortized cost and amount needed to adjust the amortized cost to fair value in the statement of financial position or notes to the financial statements

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- Statement of financial position
 - » Fair value, with recap of amortized cost, cumulative credit losses and fair value adjustment
 - Income statement
 - » Interest income/expense, credit losses, realized gains or losses presented separately
 - Comprehensive income
 - » Changes in unrealized gains/losses not included in net income
 - Comprehensive income and income statement would be included on single statement of financial performance

Assets		Liabilities	
Cash	Fair value	Deposits	Fair value
Securities	Fair value	Subordinated debt	Fair value
		Mortgage on premises	Fair value or amortized cost
Loans, with recap to	Fair value	Equity:	
Servicing Rights	Amortized cost or fair value	OCI	Aggregate of some changes in fair value
Derivatives	Fair value	Retained earnings	??
Premises	Amortized cost	Paid in capital	Historical cost

Income statement presentation - FASB proposal (Bank example)



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Statement of income <i>and comprehensive income</i>	\$
Interest income	XXXXX
Interest expense	<XXXXX>
Net interest income	XXXXX
Provision for loan losses	XXXXX
Non interest income	XXXXX
Non interest expense	<XXXXX>
Pretax income	XXXXX
Income tax expense	<XXXXX>
Net income	XXXXX
Earnings per share	XX.XX
Other comprehensive income, net of tax	
Changes in unrealized gains/losses not included in net income	<u>XXXXX</u>
Comprehensive income	XXXXX
Comprehensive earnings per share	XX.XX

	FASB	IASB
Measurement	All financial instruments would be at fair value except entity's own debt may be measured at amortized cost (if the debt qualifies for OCI treatment and it funds an asset carried at amortized cost).	Two measurement categories: 1) Amortized cost measurement allowed – for instruments having basic loan features that are managed on a contractual yield basis. 2) Fair value measurement – if conditions above are not met then fair value through P&L.
Changes in fair value to be recognized in OCI	If an entity's business strategy is to hold debt instruments with principal amounts for collection or payments of contractual cash flows rather than to sell or settle the financial instruments with a third party.	Permit an entity to make an irrevocable election to present in OCI changes in the value of any investment in equity instruments that is not held for trading purposes.

	FASB	IASB
Presentation of financial instruments for which changes in fair value recognized in OCI	<ol style="list-style-type: none"> 1) Balance sheet <ul style="list-style-type: none"> – Fair value with recap of amortized cost, cumulative credit losses and fair value adjustment 2) Income statement. <ul style="list-style-type: none"> – Interest and income/expense, credit losses, realized gains or losses presented separately 3) Comprehensive income <ul style="list-style-type: none"> – Changes in unrealized gains or losses 	Dividends received on investments in equity instrument for which OCI treatment is elected would also be presented in other comprehensive income. There would be no transfers from other comprehensive income to profit or loss (i.e., no recycling) and hence no impairment requirements.
Hybrid instruments containing embedded derivatives	Hybrid Instruments that meet the clearly and closely related criteria and if the entity's business strategy is to hold such instruments for collection or payment(s) rather than sell or settle changes in fair value may be recognized in OCI	No more separation of derivatives from host. Entire instrument carried at fair value with changes in net income.

	FASB	IASB
Timing of issuance of the standard	<ul style="list-style-type: none">• Exposure draft due by early 2010. Final statement by 4th quarter of 2010.• Not effective before 2011 at earliest.	<ul style="list-style-type: none">• Exposure drafts during 2009. standards late 2009 into early 2010.• Will not be mandatory before January 2012. Early adoption available for annual periods ending December 31, 2009.

