

IMPORTANT COMMENT PERIOD FOR FASB PROPOSALS

On March 17, The Financial Accounting Standards board issued two proposed staff positions (FSPs) that would change the method for determining if an Other-Than-Temporary Impairment (OTTI) exists and the amount of OTTI to be recorded through an entity's income statement.

- Proposed FSP FAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, Fair Value Measurements.
- Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments (OTTI), provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

Written comments on both FSPs must be received by April 1, 2009 and submitted by email to director@fasb.org or regular mail to Technical Director, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

Proposed FASB Change in OTTI Accounting:

- To determine whether an OTTI exists, the proposed FSP would require an entity to assess *the likelihood* of selling the security prior to recovering its cost basis. This would be a change from the current requirement for an entity to assess whether it has *the intent and ability* to hold a security to recovery.
- If the entity intends to sell the security or it is more-likely-than-not that the entity will be required to sell the security prior to recovery of its cost basis, the security would be written down to fair value with the full charge recorded through the income statement.
- 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 prior to recovery, the security would not be considered other-than-temporarily impaired unless there are credit losses associated with the security.
- Where credit losses exist, the portion of the impairment related to incurred credit losses would be recognized through the income statement. *Any remaining difference (i.e., non-economic) between the fair value and the cost basis would be recognized as part of OCI.*
- Starting with the first quarter of 2009, the above approach would help many institutions going forward, as any non-economic losses would be included in OCI, rather than in retained earnings. However, the above approach would not help institutions that already recorded OTTI charges through year-end 2008.