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Heads Up

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FSP FAS 157-2 delays the effective date of Statement 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008.

FASB Partially Defers and Limits Scope of Statement on Fair Value Measurements

by David Elizandro and Sam Loughry, Deloitte & Touche LLP

This week, the FASB issued two Staff Positions on Statement No. 157, *Fair Value Measurements*: (1) FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," and (2) FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13."

Background

To bring greater consistency to fair value reporting in financial statements, the FASB issued Statement 157 in September 2006. Statement 157 does not require any new fair value measurements; rather, it "defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements." Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

Partial Deferral

FSP FAS 157-2 delays the effective date of Statement 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP FAS 157-2 states that a measurement is recurring if it happens at least annually and defines nonfinancial assets and nonfinancial liabilities as all assets and liabilities other than those meeting the definition of a financial asset or financial liability in FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The Appendix of this *Heads Up* list examples of items to which the deferral would and would not apply.

The FSP is effective upon issuance. Entities that applied the measurement and disclosure guidance in Statement 157 in preparing either interim or annual financial statements issued before the effective date of the FSP are not eligible for the FSP's deferral provisions. Entities are encouraged to adopt Statement 157 in its entirety, as long as they have not yet issued financial statements during that year. An entity that chooses to adopt Statement 157 in its entirety must do so for **all** nonfinancial assets and nonfinancial liabilities within its scope. For example, an entity that chooses to early adopt Statement 157 for nonfinancial liabilities included in exit or disposal activities measured at fair value under FASB Statement No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*, must do so for all nonfinancial assets and nonfinancial liabilities within Statement 157's scope.

An entity that has not applied Statement 157 in its entirety must disclose (1) that it has only partially adopted Statement 157 and (2) the categories of assets and liabilities recorded or disclosed at fair value to which Statement 157 was not applied. The entity must provide these disclosures as of each reporting date until it applies Statement 157 to all assets and liabilities within its scope.

Leasing Scoped Out

FSP FAS 157-1 excludes FASB Statement No. 13, *Accounting for Leases*, as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under Statement 13, from the scope of Statement 157. In the Basis for Conclusions to Statement 157, the FASB indicated that it did not intend to change lease accounting. However, after the issuance of Statement 157, it was determined that applying the new definition of fair value to the residual value of a leased asset may result in unintended changes to lease classification.

FSP FAS 157-1 excludes Statement 13, as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under Statement 13, from the scope of Statement 157.

The scope exception does not apply to fair value measurements of lease transactions required under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, Statement 146, and FASB Interpretation No. 21, *Accounting for Leases in a Business Combination* (and, by extension, FASB Statement No. 141, *Business Combinations*).

The FSP is effective upon an entity's initial adoption of Statement 157. Entities that did not apply Statement 157 in a manner consistent with the FSP should retrospectively apply the FSP to the date of initial adoption. The retrospective application provision would primarily apply only to entities that early adopted Statement 157.

Appendix

The contents of the following tables are taken directly from paragraphs 9 and 10 of FSP FAS 157-2:

Examples of Items to Which the Deferral Would Apply
Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods (nonrecurring fair value measurements)
Reporting units measured at fair value in the first step of a goodwill impairment test as described in paragraph 19 of FASB Statement No. 142, *Goodwill and Other Intangible Assets* (measured at fair value on a recurring basis, but not necessarily recognized or disclosed in the financial statements at fair value)
Nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test as described in paragraphs 20 and 21 of Statement 142 (measured at fair value on a nonrecurring basis to determine the amount of goodwill impairment, and not necessarily recognized or disclosed in the financial statements at fair value)
Indefinite-lived intangible assets measured at fair value for impairment assessment under Statement 142 (measured at fair value on a recurring basis, but not necessarily recognized or disclosed in the financial statements at fair value)
Nonfinancial long-lived assets (asset groups) measured at fair value for an impairment assessment under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (nonrecurring fair value measurements)
Asset retirement obligations initially measured at fair value under FASB Statement No. 143, *Accounting for Asset Retirement Obligations* (nonrecurring fair value measurements)
Nonfinancial liabilities for exit or disposal activities initially measured at fair value under FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (nonrecurring fair value measurements)

Examples of Items to Which the Deferral Would Not Apply
Items within the scope of paragraph 7 of Statement 159 that are recognized or disclosed at fair value on a recurring basis
Items within the scope of FASB Statement No. 107, *Disclosures About Fair Value of Financial Instrument*s, whether recognized or not
Financial and nonfinancial derivatives within the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*
Servicing assets and servicing liabilities within the scope of FASB Statement No. 156, *Accounting for Servicing of Financial Assets*, including situations in which an entity has elected the amortization method as the subsequent measurement attribute, because the fair value is required to be disclosed on a recurring basis
Loans measured for impairment using the practical expedient in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (based on the fair value of collateral if the loan is collateral dependent), even if the underlying collateral is nonfinancial
Financial assets and financial liabilities initially measured at fair value in a business combination or other new basis event, regardless of whether measured at fair value during subsequent periods

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