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Heads Up

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# An Interim Step to Comparability

## FASB Issues Proposal on Interim Disclosure of Financial Instruments

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The Board decided to not move forward with the expanded disclosure requirements originally proposed in FSP FAS 107-a for certain financial assets.

Late last week, the FASB exposed for public comment proposed FSP FAS 107-b and APB 28-a.[1] The comment period for the proposed FSP extends for 30 days, ending March 2, 2009. The proposed FSP comes on the heels of the FASB's meeting to discuss the comment letters it received on proposed FSP FAS 107-a.[2] The Board decided to not move forward with the expanded disclosure requirements originally proposed in FSP FAS 107-a for certain financial assets. Rather, the Board decided to issue a new proposed FSP to include the fair value disclosures currently required under Statement 107[3] for **interim** periods in addition to annual periods. That is, the fair value of all financial assets and financial liabilities (for which it is practicable to estimate fair value) within the scope of Statement 107 would be disclosed for interim and annual periods.[4]

## Background

In late 2008, the FASB and IASB convened joint roundtables on the global financial crisis. Constituents at the roundtables (1) cited concerns about different methods of evaluating impairments under U.S. GAAP in Statement 115[5] and Issue 99-20[6] for similar debt securities (see Deloitte's January 16, 2009, *Heads Up*) and (2) discussed the need for expanded disclosures. In response to the latter issue, the FASB first exposed proposed FSP FAS 107-a, which required additional disclosures for only certain financial instruments (1) at carrying value, (2) at fair value, and (3) based on incurred losses. Ultimately, the Board decided to not move forward with the proposal because of constituents' concerns about the proposal's timing and its operationality. However, as an interim step in the broader joint project with the IASB on reducing complexity in reporting financial instruments (see Deloitte's April 2, 2008, *Heads Up*), and to address the need for additional transparency

[1] Proposed FASB Staff Position (FSP) No. FAS 107-b and APB 28-a, "Interim Disclosures About Fair Value of Financial Instruments."

[2] Proposed FASB Staff Position No. FAS 107-a, "Disclosures About Certain Financial Assets: An Amendment of FASB Statement No. 107."

[3] FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*.

[4] The IASB proposed an amendment to IFRS 7, *Financial Instruments: Disclosures*, that was similar to the disclosures proposed in FSP FAS 107-a. At a Board meeting in January 2009, the IASB decided to not move forward with the proposed amendments to IFRS 7. Unlike the FASB, the IASB did not opt to propose a new disclosure amendment in its place.

[5] FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

[6] 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."

and concerns regarding the lack of comparability resulting from the use of different measurement attributes for financial instruments, the Board agreed to expose FSP FAS 107-b and APB 28-a. The exposed topic proposes to increase the frequency of fair value disclosures for financial instruments under Statement 107.

## Interim Disclosures

So what does this new proposal mean? Statement 107 requires **annual** disclosures about the fair value for all financial instruments (except those that are explicitly excluded), regardless of whether they were recognized on the balance sheet. In addition, Statement 107 requires entities to disclose the methods and the significant assumptions they used to value financial instruments.

**Editor's Note:** While the proposed FSP would certainly increase the transparency of financial information and provide more real-time information about the fair values of financial instruments, such benefits do not come without a price. In today's current environment, it may be difficult (and potentially costly) for entities to determine the fair value of certain financial instruments.

Statement 107 requires **annual** disclosures about the fair value for all financial instruments (except those that are explicitly excluded), regardless of whether they were recognized on the balance sheet.

Statement 107 acknowledges that it may not be practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments. In such circumstances, an entity should disclose (1) information that is pertinent to estimating the fair value (e.g., the carrying amount, effective interest rate, and maturity) and (2) the reasons it cannot estimate fair value. Under the proposed FSP, the same practicability exception would apply to interim periods.

## Effective Date and Transition

Proposed FSP FAS 107-b and APB 28-a would be effective prospectively for interim periods ending **after** March 15, 2009. Therefore, calendar-year-end entities would provide comparative fair value disclosures for first quarter 2009 and year-end 2008.

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