

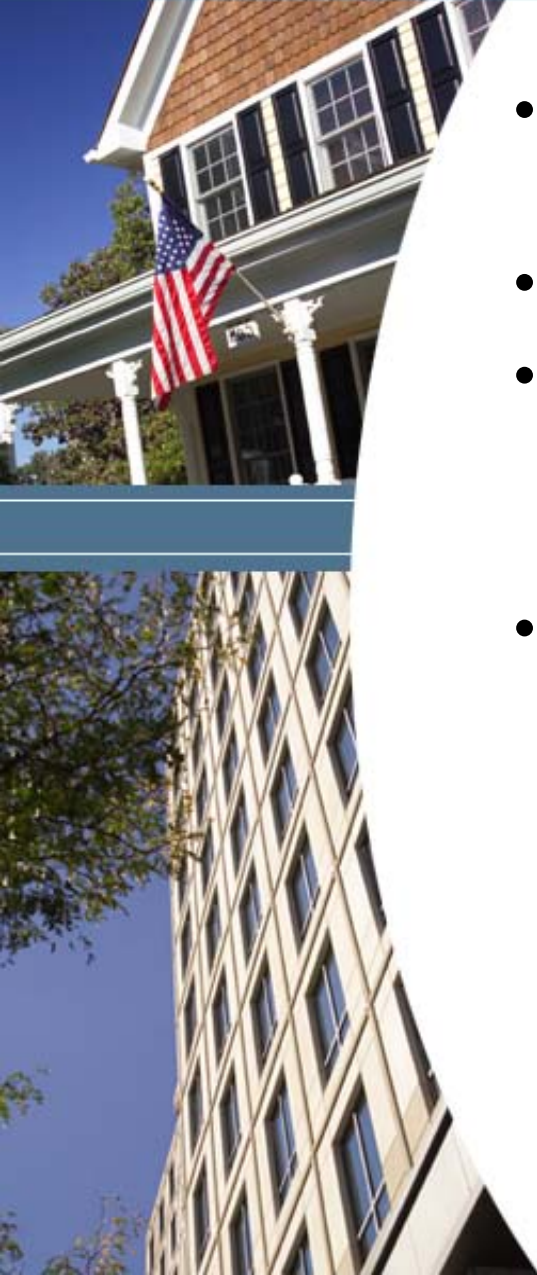
# Fair Value – Past and Present

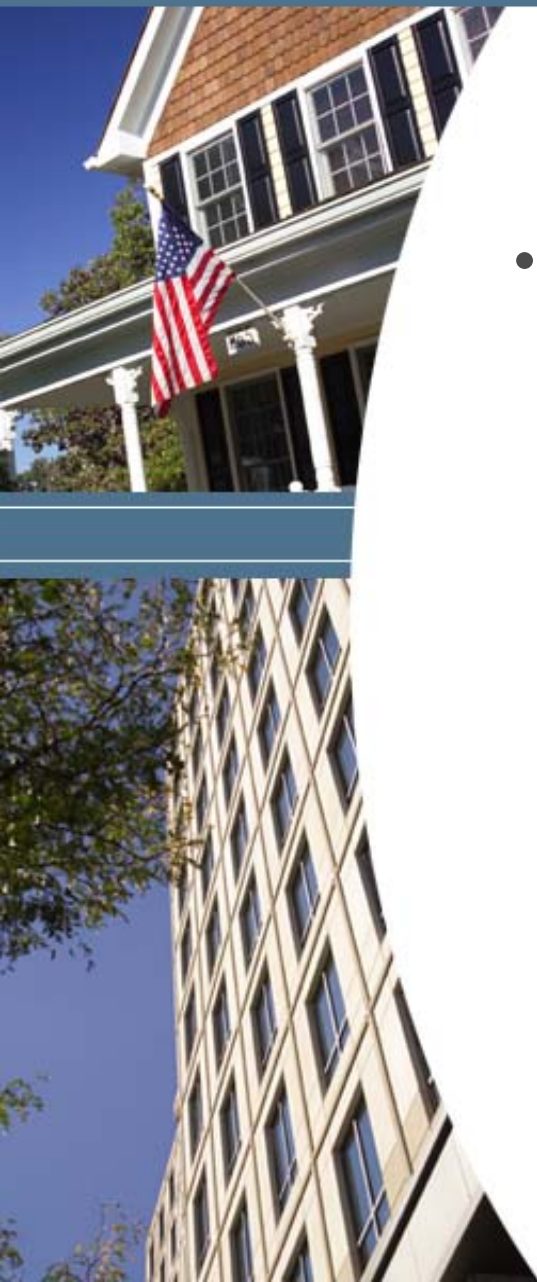
November 13, 2009

Tom Knox

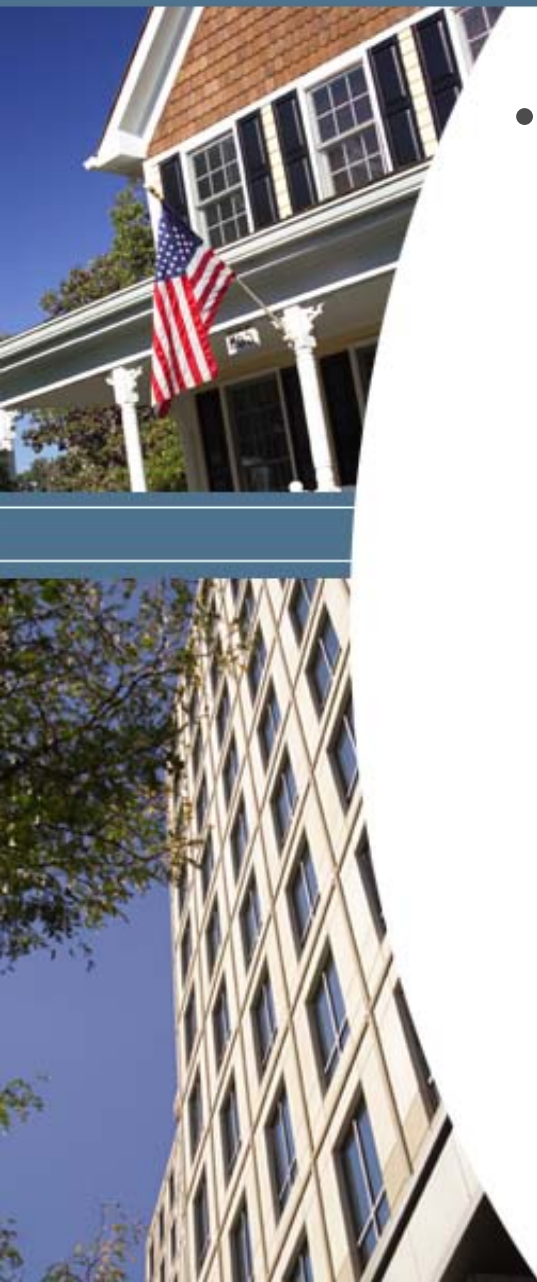
PricewaterhouseCoopers, LLP

Financial Instruments and Credit Group

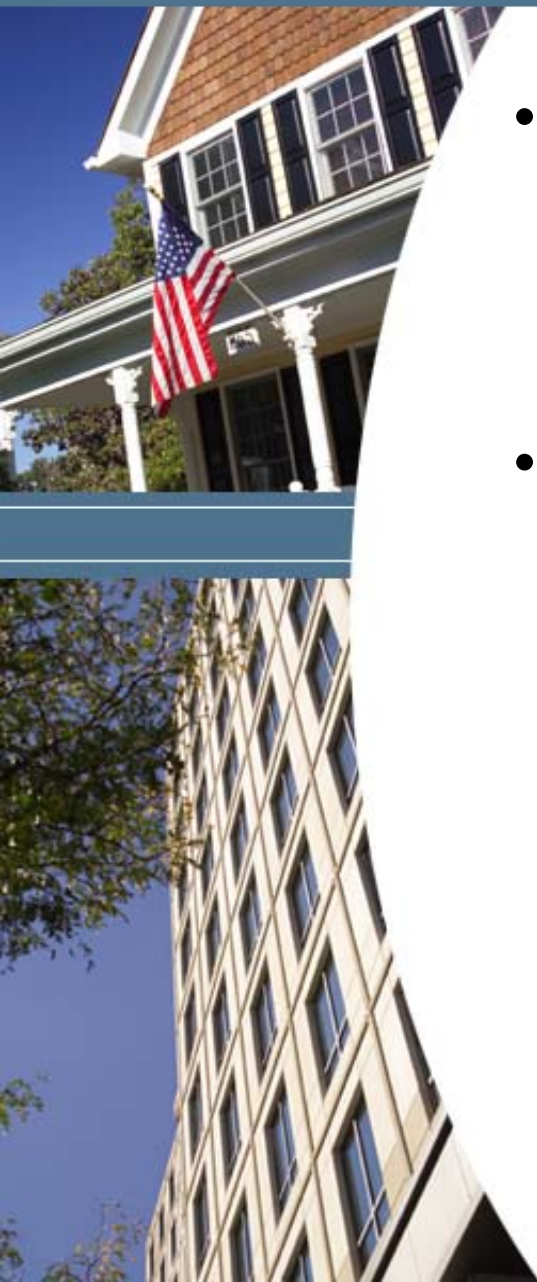
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- Provide overview of historical and recently issued guidance affecting fair value accounting
  - Discuss the continuing fair value accounting debate
  - Challenges faced by market participants associated with adhering to the fair value measurement guidance
  - Discuss continued audit challenges



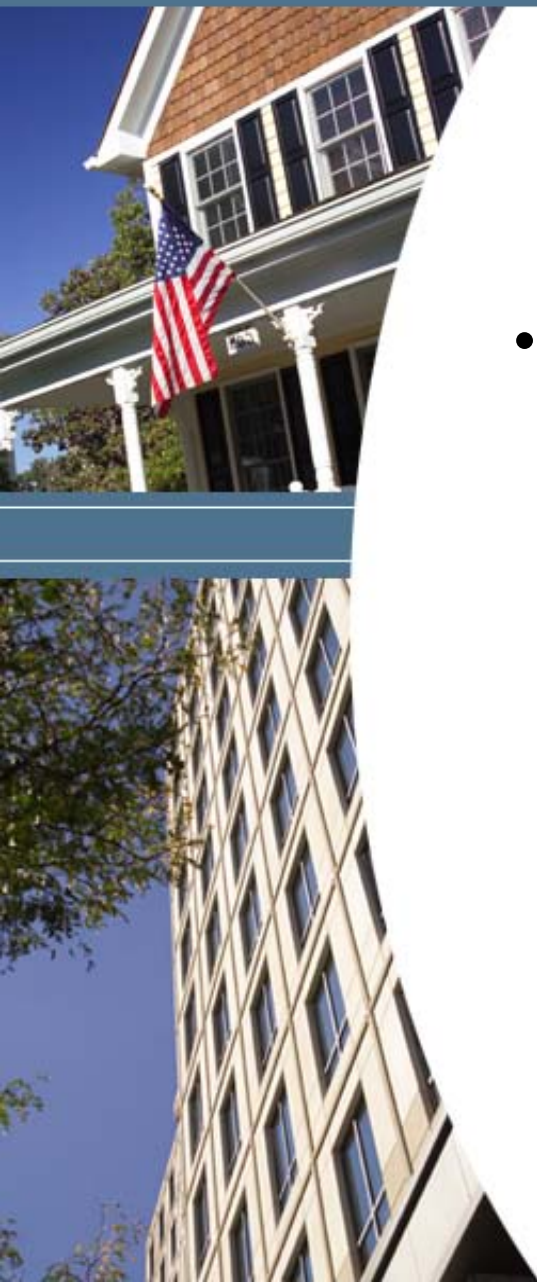
- 1982 – SFAS 60; Accounting for Insurance Enterprises
  - » carry fixed maturity securities at amortized cost and equity securities at fair value
  - » Fluctuations in fair value were reflected as unrealized gains and losses within the equity component of the balance sheet,
  - » gains and losses realized upon disposal were recognized within earnings



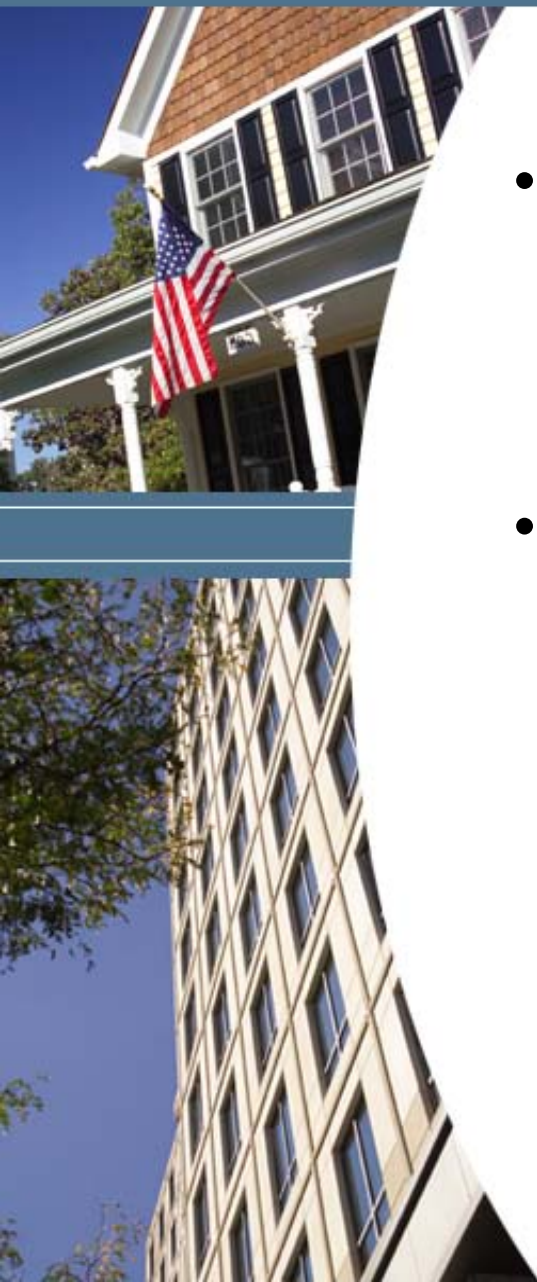
- 1993 – SFAS 115; Accounting for Certain Investments in Debt and Equity Securities
  - » Superseded the investment accounting guidance of SFAS 60
  - » Established a new, categorical method for investment accounting
  - » Trading Securities, Available for Sale Securities and Held to Maturity Securities
  - » Retained the other than temporary decline concept introduced in SFAS 60



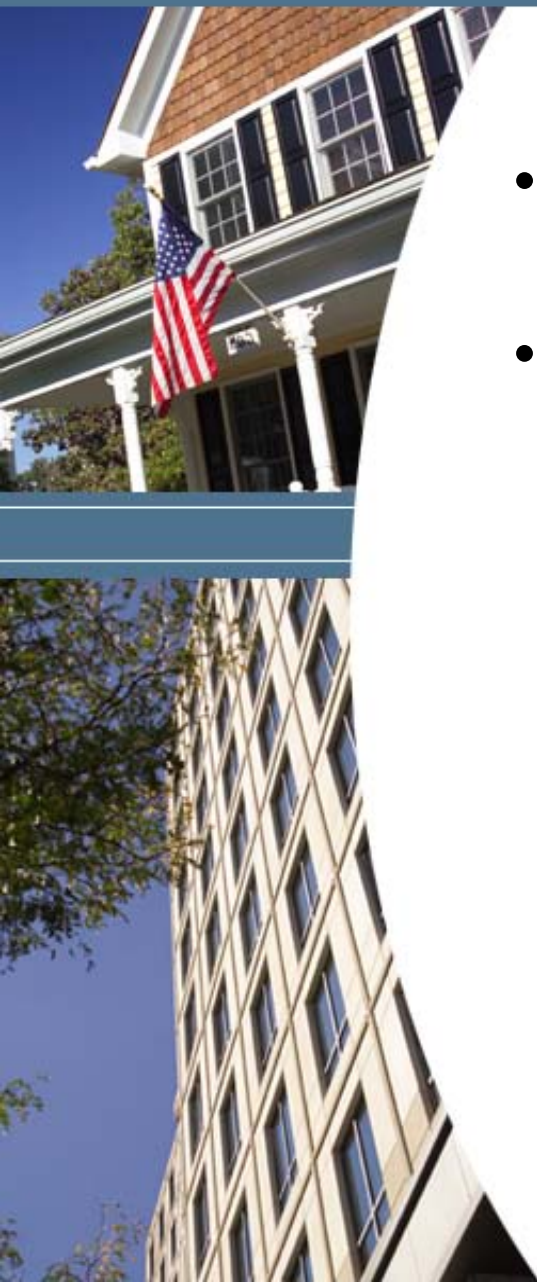
- 2004 – EITF Issue no. 03-1; The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,
- 2005 – FSP 115-1 effectively nullifies the requirements of Issue No. 03-1. It established three steps in determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss.



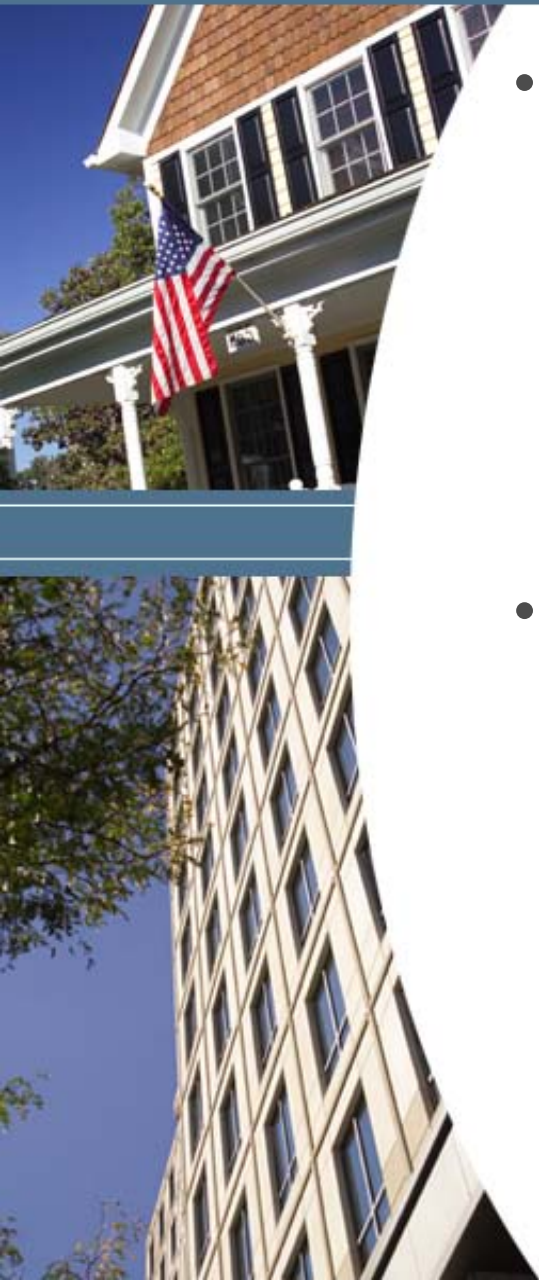
- 2006 – SFAS 157; Fair Value Measurements
  - » Established a methodology for the determination of FV
  - » Expanded FV disclosures
  - » Did not change the recognition requirements of SFAS 115



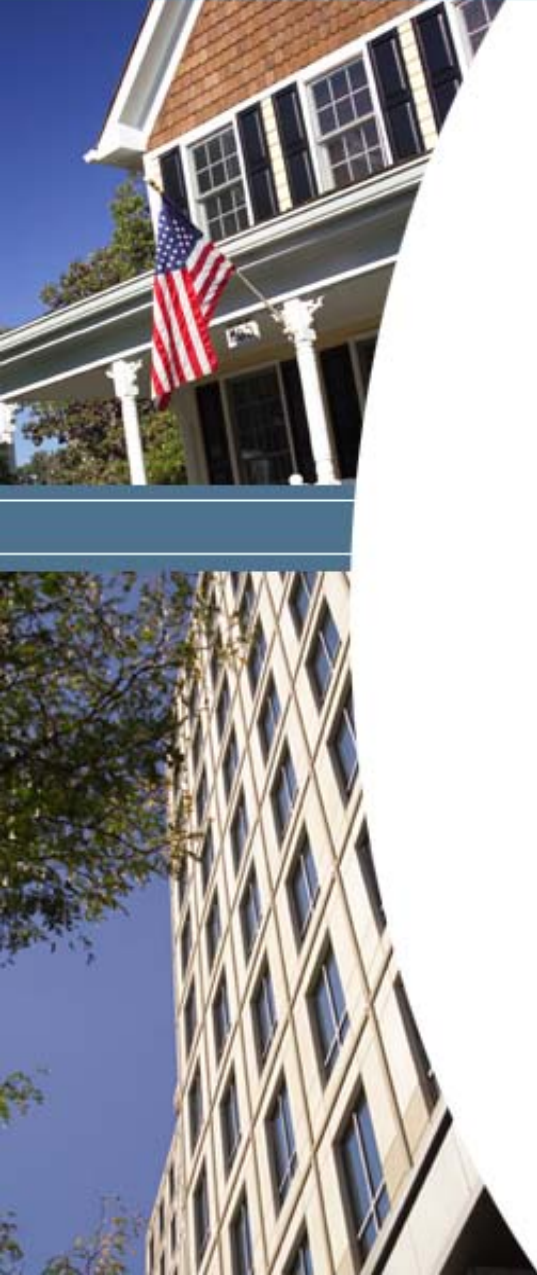
- October 2008 - FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active
- April 2009 – ASC 820 (FSP 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

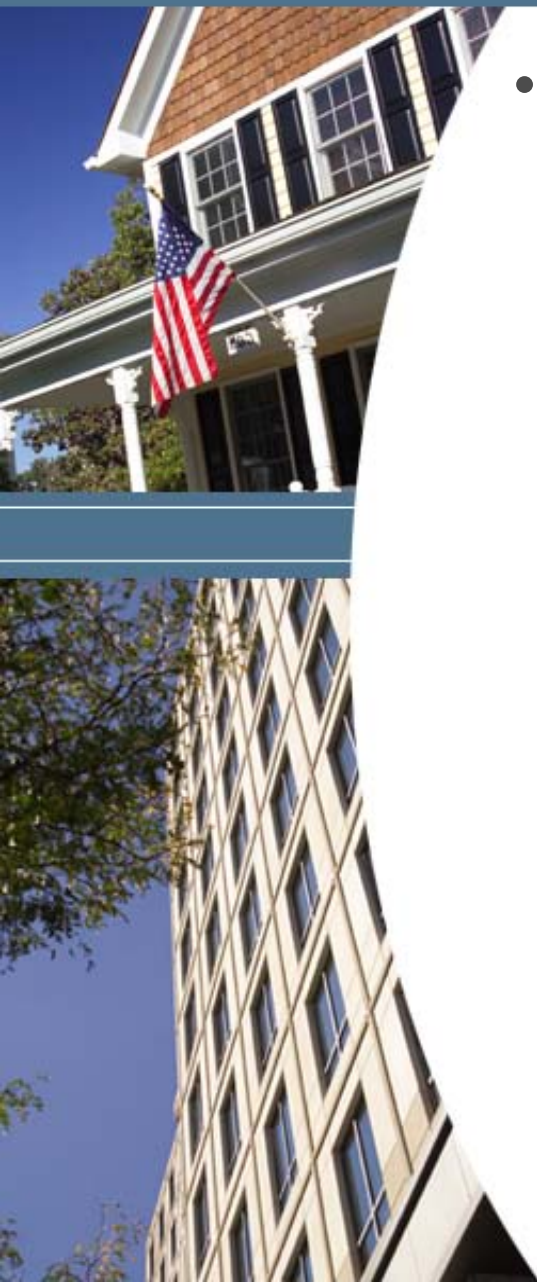


- April 2009 – FSP 115-2, Recognition and Presentation of Other-Than-Temporary Impairments
- An other-than-temporary impairment of a debt security is considered to have occurred in the following circumstances:
  - » The entity intends to sell the security.
  - » It is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis.
  - » The entity does not expect to recover the entire amortized cost basis of the security.

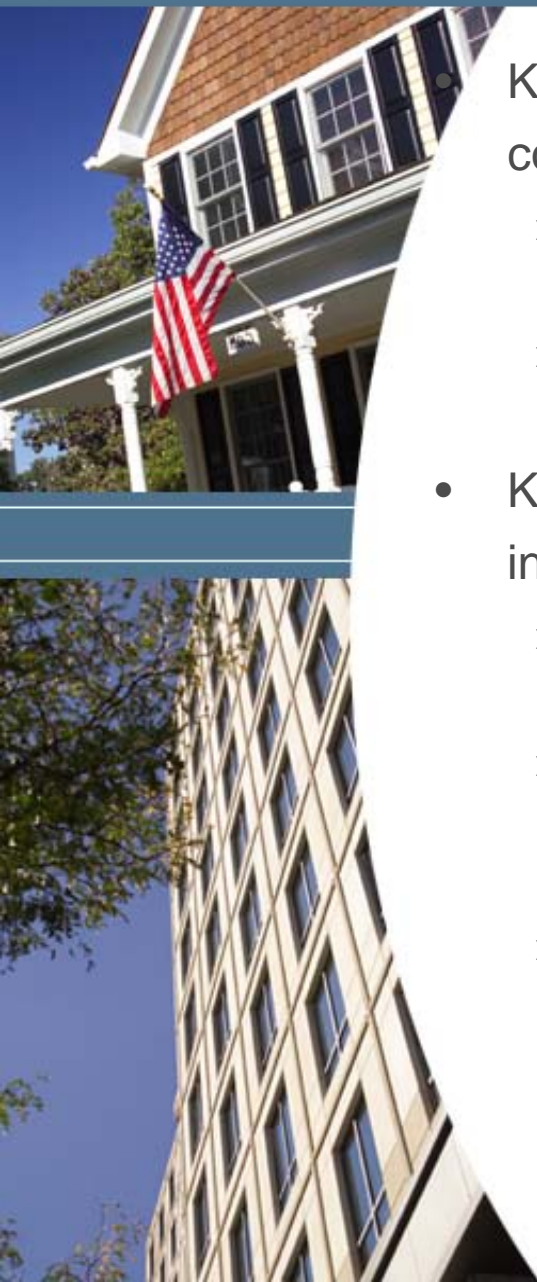


- Provides guidance addressing:
  - » Assessing level of activity - determining (a) when a market for an asset or for a liability is active or inactive and (b) when a particular transaction is distressed
  - » Allows for adjustment to transaction or quoted price if there has been a significant decrease in the volume and level of activity
- Provides renewed emphasis on the following:
  - » Reaffirms FASB's intent that fair value should be a mark-to-market approach and that a reporting entity's intentions to hold an asset or liability is not relevant (not entity specific)
  - » Reiterated that fair value is an exit price in an orderly transaction under current market conditions
  - » Using market transactions as inputs to fair value estimation, subject to revisions for inactive or distressed markets

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- » FSP 157-4 amends FAS 157 to require entities to disclose in interim and annual periods the inputs and valuation techniques used to measure FV and changes in inputs and techniques from previous periods
  - » FSP 157-4 also requires reporting entities to define major category for both debt and equity securities to be major security types as described in paragraph 19 of FAS 115. This requires entities to provide disclosures on a more disaggregated basis than previously had been required under FAS 157.



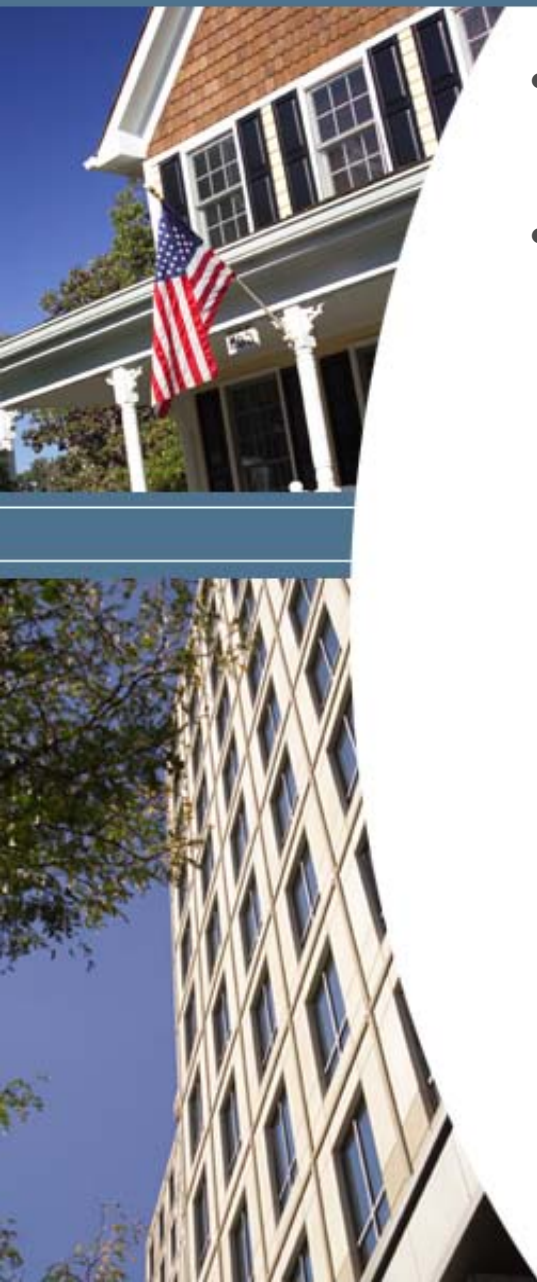
- Key Impacts
  - » Majority of institutions did not report significant changes to the valuation process
  - » In most cases, limited to no impact was noted from the adoption of the FSP
  - » Processes and controls and related documentation were updated to consider change in level of activity
  - » In very limited cases, some revised methodology to weigh pricing vendor prices with other pricing data



- Key considerations when assessing how pricing vendor considers distressed transactions in the valuation:
  - » Evaluation of vendor documentation (white papers, methodologies, etc.)
  - » Understanding of vendor's process to assess distressed transactions
- Key considerations when client is evaluating moving from independent pricing vendors to internal models:
  - » Consideration of whether the inputs into the internal model are reflective of current market conditions
  - » Consideration of whether the model provides a more relevant measure and considers all relevant attributes of the asset or liability
  - » Assessment of whether the proposed approach is more reflective of how a third party market participant (i.e. potential buyer) would determine the price they are willing to pay for the reference asset

- FSP FAS 107-1 and APB 28-1: Interim disclosures about fair value of financial instruments
  - » Require public entities to disclose in their interim financial statements:
  - » Fair value of all financial instruments for which it is practicable to estimate that value
  - » Methods and significant assumptions used to estimate the fair value
  - » Discussion of changes in methods and significant assumptions during the period
- Non public entities are excluded from the scope of this FSP

- Accounting Standards Update 2009-05, Measuring Liabilities at Fair Value - This update provides amendments to Subtopic 820 -10, Fair Value Measurement and Disclosure, and provides guidance when a quoted price in an active market doesn't exist. The standard update provided the following clarifications:
  - » Types of valuation techniques to be used to value a liability when a quoted price isn't available
  - » Clarifies that no adjustment is necessary for restrictions that prevents the transfer of the liability
  - » Clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements



- Accounting Standards Update 2009-05, Measuring Liabilities at Fair Value:
- Provides the following methods for measuring fair value of a liability when a quoted price of the identical liability in an active market does not exist:
  - » Quoted price of the identical liability when traded as an asset in an active market
  - » Quoted prices for similar liabilities or similar liabilities when traded as assets
  - » Another valuation technique that is consistent with the principles of ASC 820.