Notice for Recipients of
This Proposed FASB Staff Position

This proposed FASB Staff Position (FSP) would amend FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and 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," to make the other-than-temporary impairment guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This proposed FSP would modify the current indicator that, to avoid considering an impairment to be other-than-temporary, management must assert it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. Instead, management would be required to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before recovery of its cost basis. This proposed FSP would change the total amount recognized in earnings (or the "performance indicator" of not-for-profit entities within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*) when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. In those situations, the impairment would be separated into (a) the amount of the total impairment related to credit losses and (b) the amount of the total impairment related to all other factors. The amount of the total impairment related to credit losses would be included in earnings (or the "performance indicator"). The amount of the total impairment related to all other factors would be included in other comprehensive income (or would be excluded from the "performance indicator"). A reporting entity would be required to present separately the total amount of the impairment in the statement of earnings (or the "performance indicator") and the amount recognized in other comprehensive income (or outside the "performance indicator") as a deduction from the total impairment.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP, particularly on the questions listed below. Respondents need not comment on each issue and are encouraged to comment on additional matters that they believe should be brought to the Board's attention. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments are most helpful if they identify the issues or the specific paragraph(s) to which they relate and clearly explain the reasons for the positions taken. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

The Board requests that constituents provide comments on the following questions:

1. This proposed FSP would require entities to separate (and present separately on the statement of earnings or "performance indicator") an other-than-temporary impairment of a debt security into two components when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. The two components would be (a) the credit component and (b) the noncredit component (residual related to other factors). Does this separate presentation provide decision-useful information?

2. This proposed FSP would require that the credit component of the other-than-temporary impairment of a debt security be determined by the reporting entity using its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20, the amount of the total impairment related to credit losses would be determined considering the guidance in paragraph 12(b) of Issue 99-20. Do you believe this guidance is clear and operational? Do you agree with the requirement to recognize the credit component of an other-than-temporary impairment in income and the remaining portion in other comprehensive income? Under what circumstances should the remaining portion be recognized in earnings?

3. This proposed FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert that it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes that, compared to current requirements, it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. Does this modification make this aspect of the other-than-temporary impairment assessment more operational (the remaining factors discussed in FSP FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, would remain unchanged)? Should this modification apply to both debt and equity securities? Will this change result in a significant change to the assessment of whether an equity security is other-than-temporarily impaired?

4. This proposed FSP would require that the portion of an impairment recognized in other comprehensive income for held-to-maturity securities be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset (that is, an entity would not be permitted to adjust the fair value of a held-to-maturity security for subsequent recoveries in the fair value of the security similar to the accounting for available-for-sale securities). Do you agree with this requirement?

5. Is the proposed effective date of interim and annual periods after March 15, 2009, operational?

Responses must be received in writing by April 1, 2009. Earlier responses are encouraged. Interested parties should submit their comments by email to director@fasb.org, File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b. Those without email may send their comments to "Technical Director, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b." Responses should not be sent via facsimile.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB's website and included as part of the public record with other project materials.

PROPOSED FASB STAFF POSITION

No. FAS 115-a, FAS 124-a, and EITF 99-20-b

Title: Recognition and Presentation of Other-Than-Temporary Impairments

Date Released: March 17, 2009

Comment Deadline: April 1, 2009

Objective

1. The objective of an other-than-temporary impairment analysis under existing U.S. generally accepted accounting principles (GAAP) is to determine whether the holder is likely to realize some portion of the unrealized loss on an impaired security. An investment is impaired if the fair value of the investment is less than its cost.[1]

2. This FASB Staff Position (FSP) amends the other-than-temporary impairment guidance in U.S. GAAP to make the guidance more operational and to improve the presentation other-than-temporary impairments in the financial statements. This FSP modifies the current indicator that, to avoid considering an impairment to be other than temporary, management must assert it has both the intent and the ability to hold an impaired security for a period of time sufficient to allow for any anticipated recovery in fair value. The Board believes it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery. This FSP changes the total amount recognized in earnings (or the "performance indicator" of not-for-profit entities within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*) when there are credit losses associated with an impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. In those situations, the impairment should be separated into (a) the amount of the total impairment related to credit

[1] FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, indicates that cost includes adjustments made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments, and hedging.

losses and (b) the amount of the total impairment related to all other factors. The amount of the total impairment related to credit losses should be included in earnings (or the "performance indicator"). The amount of the total impairment related to all other factors should be included in other comprehensive income (or should be excluded from the "performance indicator"). A reporting entity is required to present separately the total amount of the impairment in the statement of earnings (or the "performance indicator") and the amount recognized in other comprehensive income (or outside the "performance indicator") as a deduction from the total impairment.

Background

3. If the fair value of a debt or equity security is less than its cost basis at the measurement date, U.S. GAAP requires that the reporting entity assess the impaired security to determine whether the impairment is other than temporary. An other-than-temporary impairment assessment requires, among other considerations, that the reporting entity assert that it has the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value (SEC Staff Accounting Bulletin [SAB] Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*, and AICPA Statement on Auditing Standards No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*). Currently, other-than-temporary impairments are recognized entirely in earnings (or the "performance indicator").

4. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed into law. Section 133 of the Act mandated that the U.S. Securities and Exchange Commission (SEC) conduct a study on mark-to-market accounting standards. The SEC submitted its study to Congress on December 30, 2008. One of the recommendations in the study was that the FASB reassess current impairment accounting models for financial instruments. The SEC recommended that the FASB "evaluate the need for modifications (or the elimination) of current other-than-temporary impairment guidance to provide for a more uniform system of impairment testing standards for financial instruments."

5. On January 12, 2009, FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, was issued to achieve more consistency between FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and 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," in the accounting for other-than-temporary impairments. However, constituents continue to express concerns that the requirements for measurement and recognition of impairment losses for loans are different from those for investments in debt securities and that financial statements do not provide users with sufficient information about an entity's credit losses (that is, the amount of cash the entity expects to lose if it holds an investment to maturity). Some constituents believe that the current market conditions have caused temporary declines in value that do not reflect cash flows that will actually be collected.

6. This FSP more closely aligns the amounts recognized in earnings (or the "performance indicator") for impairments of debt securities and loans, unless it is likely that the entity will sell a security before recovery of its cost basis. In that case, the Board decided that the entire loss should be recorded in earnings (or the "performance indicator"). This FSP also improves the way yields are reported on debt securities that are impaired, when the entity still expects to collect the amounts due (because those losses would be reported in other comprehensive income, not earnings or the "performance indicator").

7. This FSP does not amend the requirement in Statement 115 (and Issue 99-20) to apply the other-than-temporary impairment guidance and disclosures in FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Additionally, other aspects of determining whether a security is other-than-temporarily impaired remain unchanged. For example, entities will still need to consider the severity and duration of the impairment and the financial condition and near-term prospects of the issuer. This FSP also does not result in a change in the reported value of securities in the statement of financial position (that is, available-for-sale securities are reported at fair value and held-to-maturity securities are reported at amortized cost unless they are other than temporarily impaired, in which case they are adjusted to fair value). However, this FSP does require that the impairment recognized in other comprehensive income for held-to-maturity securities be

amortized over the remaining life of the debt security. Investors have informed the Board that the two key financial metrics that they use in evaluating many financial institutions are Tangible Common Equity and Net Interest Margin. This FSP has little or no affect on Tangible Common Equity, but does result in a Net Interest Margin that is more consistent with the cash flows of the entity.

8. The Board understands that the staff of the SEC's Office of the Chief Accountant plans to amend SAB Topic 5M to conform with the guidance in this FSP.

9. Beyond the short-term changes in this FSP, the FASB has a joint project with the International Accounting Standards Board to more broadly improve and achieve convergence on their respective standards on accounting for financial instruments.

10. This FSP includes amendments to Statement 115, Statement 124, FSP FAS 115-1/124-1, and Issue 99-20. Conforming changes to other standards may be necessary.

All paragraphs in this FSP have equal authority.
Paragraphs in bold set out the main principles.

FASB Staff Position

Scope

11. **This FSP applies to other-than-temporary impairments of debt and equity securities.**

Recognition and Measurement

12. **If a decline in fair value below the amortized cost exists at the measurement date for a debt or equity security and the entity intends to sell the security or it is more likely than not that an entity will sell the debt or equity security before recovery of its cost basis, an other-than-temporary impairment exists. If an other-than-temporary impairment exists, the entire amount of the impairment shall be recognized in earnings (or the "performance indicator"). The fair value of the investment would become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.**

13. **If a decline in fair value below the amortized cost exists at the measurement date for a debt security and it is more likely than not that an entity will not sell the debt security before recovery of its cost basis but it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the security, the debt security shall be considered other than temporarily impaired. The amount of the impairment related to the credit losses shall be recognized in earnings (or the "performance indicator"). The amount of the impairment related to other factors shall be recognized in other comprehensive income (or shall be excluded from the "performance indicator"). The previous cost basis less the impairment recognized in earnings would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.**

Subsequent Measurement

14. **In periods after the recognition of an other-than-temporary impairment loss for debt securities, an investor shall account for the other-than-temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other-than-temporary impairment at a cost equal to the previous basis less the impairment recognized in earnings. That is, unless a sale is imminent, the discount or reduced premium recorded for the debt security, based on the new cost basis, shall be amortized over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows.**

15. **The impairment recognized in other comprehensive income for held-to-maturity securities shall be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset unless there is a subsequent other-than-temporary impairment that is recognized in earnings (or the "performance indicator").**

Presentation

16. **In periods in which a reporting entity determines that a security's decline in fair value below the amortized cost basis is other than temporary, the reporting entity shall present the total impairment in the statement of earnings (or the "performance indicator") with an offset for the amount of the total impairment that is recognized in other comprehensive income (or outside the "performance indicator"), if any.**

Disclosures

17. **In periods in which a reporting entity determines that a security's decline in fair below the amortized cost basis is other than temporary and the total impairment is separated between the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors, an entity shall disclose the**

methodology and key inputs used to measure the portion of the total impairment that relates to credit losses.

Effective Date and Transition

18. **The FSP shall be effective for interim and annual reporting periods ending after March 15, 2009, and shall be applied prospectively.**

The provisions of this FSP need not be applied to immaterial items.

Alternative View

Messrs. Linsmeier and Siegel do not support the issuance of this FSP. They believe that at this time the most significant issue that requires short-term guidance relates to the determination of fair value estimates in inactive markets. Specifically, some have asserted that in current market conditions fair value estimates have only incorporated observable inputs from distressed sales. Those constituents conclude that the fair value estimates are overly punitive and the primary issue with existing other-than-temporary impairment guidance is that it results in larger values for impairment losses recorded in earnings than otherwise should be the case. However, Statement 157 indicates that fair value is the price to transfer an asset between a willing buyer and a willing seller in an orderly transaction at the measurement date, which is inconsistent with writing down to prices from distressed sales/broker quotes.

Messrs. Linsmeier and Siegel, therefore, believe the primary issue raised with current other-than-temporary impairment guidance will be addressed by ensuring that impairments are marked down to a fair value estimate reflecting the price in an orderly transaction. As a result of applying the guidance in the Proposed FSP 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*, they believe that fair value estimates will more closely reflect a market participant's view as to the ultimate cash flows to be collected from a fixed income debt security and, thus, provide a reasonable estimate of the current value of the impaired item. To the extent there is an other-than-temporary impairment, they believe that it should be measured as the entire difference between the fair value and carrying value of the impaired item with that change fully reflected in earnings as an unrealized loss.

Messrs. Linsmeier and Siegel believe that there are potentially other issues to address with the current other-than-temporary impairment model. However, they would prefer to address those concerns in the joint medium-term project with the International Accounting Standards Board (IASB). They believe that risks are high that a unilateral change to the recognition and presentation of other-than-temporary impairments could create the opportunity for an "accounting arbitrage" with pressure for FASB and IASB standards to converge to the standard perceived most lenient. In addition, changes by one standard setter acting on its own fails to

achieve convergence of accounting standards, which continues the challenges faced by investors in comparing global financial institutions reporting under two different accounting models.

Messrs. Linsmeier and Siegel believe that investors generally have opined that their preference is for fair value for financial instruments through earnings. While other financial statement users might differ in that view, the difference in opinion often is due to concerns about regulatory capital, as most users find increased worth in fair value information. Messrs. Linsmeier and Siegel do not believe that investors require a bifurcation of the fair value write-down between earnings and other comprehensive income when it is determined that an other-than-temporary impairment should be recognized because a credit loss event has occurred, as is required in the proposed model in this FSP.

Messrs. Linsmeier and Siegel believe that the primary purpose for financial reporting is to serve investors and that if a bifurcation of the full fair value change into credit and noncredit components is needed to facilitate bank regulators in their regulatory capital decisions, decomposition should be provided on the face of the income statement with both components recognized in earnings consistent with investors' preferences. Bank regulators then can choose whether or not to include the noncredit portion of the fair value in regulatory capital calculations. Messrs. Linsmeier and Siegel also object to bifurcating the impairment loss into credit and noncredit components because they do not believe an incurred loss approach (as proposed in this FSP) can isolate the credit loss from other losses (particularly liquidity risk) as is advocated by those supporting this approach. In current market conditions, liquidity risk is inextricably intertwined with credit risk, representing the discount associated with the uncertainty of collection.

Additionally, when an instrument is not able to be held to recovery, Messrs. Linsmeier and Siegel object to the proposed change in the trigger for recognition of the impairment loss. The current requirements permit nonrecognition of an impairment loss when an entity can assert its intent and ability to hold the instrument to recovery to its original cost. The proposed FSP instead requires that the entity assess whether it intends to sell the security or whether it is more likely than not that it will be required to sell the security before recovery to its cost basis. While they understand that the primary objective for this change is to make the held-to-recovery

concept more operational, they also recognize a potential result will be to reduce the amount of impairment loss recognized in the financial statements. A 1991 U.S. Treasury report cited delayed recognition of impairment losses as having an exacerbating effect on the length and ultimate cost of the savings and loan crisis. There also are potential parallels to the experience in Japan when delays in recognition of losses resulted in the so-called lost decade in the 1990s. Similarly, Messrs Linsmeier and Siegel are concerned that to the extent the proposed FSP results in delayed recognition of impairment losses in earnings, there also may be a negative impact on investor confidence.

Messrs. Linsmeier and Siegel do not agree with the inclusion of equity securities within the scope of the FSP. They believe that unlike a debt security with contractual cash flow requirements, it is impossible to positively assert that you can expect an impaired equity security to ever recover to its original cost and, therefore, they do not consider the proposed new impairment indicator to be operational; other indicators still apply.

Finally, the Board issued a proposed FSP in January that would have required the disclosure of the expected credit loss component of the fair value change in the footnotes to the financial statements, and constituents overwhelmingly indicated that it would not be possible to determine that amount without better guidance. This proposed FSP provides similar guidance for determining the credit portion of the fair value change and, therefore, Messrs. Linsmeier and Siegel are concerned whether the proposed guidance will be operational. More importantly, they are concerned that if the guidance is not operational, the reported information may not be a faithful representation of the credit impairment.

Appendix

AMENDMENTS TO EXISTING PRONOUNCEMENTS

A1. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 16, as amended:

> For individual securities classified as either available-for-sale or held-to-maturity, an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. (If a security has been the hedged item in a fair value hedge, the security's "amortized cost basis" shall reflect the effect of the adjustments of its carrying amount made pursuant to paragraph 22(b) of Statement 133.) For example, if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred.[4] If the decline in fair value is judged to be other than temporary, ~~the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss)~~the enterprise shall apply paragraph 15 of FSP FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The new cost basis shall not be changed for subsequent recoveries in fair value. Subsequent increases in the fair value of available-for-sale securities shall be included in other comprehensive income pursuant to paragraph 13; subsequent decreases in fair value, if not an other-than-temporary impairment, also shall be included in other comprehensive income.

A2. FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, is amended as follows:

a. Footnote 3a, as amended:

> Some investors, primarily health care organizations, indicated that because Statement 115 requires business entities to report changes in fair value of available-for-sale securities in a separate category of equity and to report held-to-maturity securities at amortized cost, users would be unable to make meaningful comparisons when not-for-profit organizations and business entities are engaged in the same industry. This Statement allows an organization with those comparability concerns to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and excluding the unrealized gains and losses on those securities from an operating measure within the statement of activities. Investors that report a "performance indicator" as defined in the AICPA Accounting and Audit Guide, *Health Care*

Organizations, shall refer to FSP FAS115-1 and FAS124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and FSP FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments*, when determining impairment and evaluating whether the impairment is other than temporary.

A3. FASB Staff Position FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, is amended as follows:

a. Footnote 2:

Cost includes adjustments made to the cost basis of an investment for accretion, amortization, previous other than-temporary impairments recognized in earnings (or the "performance indicator"), and hedging.

b. Paragraph 14:

~~In applying that guidance, questions sometimes arise about whether an investor shall recognize an other-than-temporary impairment only when it intends to sell a specifically identified available-for-sale debt or equity security at a loss shortly after the balance sheet date. When an investor has decided to sell an impaired available-for-sale security and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale, the security shall be deemed other-than-temporarily impaired in the period in which the decision to sell is made. However, an investor shall recognize an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.~~ An other-than-temporary impairment of a debt or equity security has occurred if the investor intends to sell the security or it is more likely than not that the investor will be required to sell the security before recovery of its cost basis.

c. Paragraph 15:

If it is determined in Step 2 that the impairment is other than temporary, ~~then an impairment loss shall be recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries subsequent to the balance sheet date. The fair value of the investment would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.~~ the accounting for the impairment depends on whether the investor intends to sell the security or it is more likely than not that the investor will sell the security before recovery of its cost basis and, for a debt security, whether a credit loss exists.

a. If the investor intends to sell the security or it is more likely than not that the investor will sell a debt or equity security before recovery of its cost

basis, an impairment loss shall be recognized in earnings (or the "performance indicator" of not-for-profit entities within the scope of the AICPA Audit and Accounting Guide, *Health Care Organizations*) equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made, and fair value becomes the new cost basis of the security. No distinction is made between credit losses (if any) and other factors contributing to the loss.

b. If it is more likely than not that the entity will not sell a debt security (classified as held-to-maturity or available-for-sale) before recovery of its cost basis, but it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the security, the impairment shall be separated into (1) the amount of the total impairment related to credit losses and (2) the amount of the total impairment related to all other factors. The amount of the total impairment related to credit losses shall be reflected as an adjustment to the cost basis of the security, with the offset recorded as an impairment loss in earnings (or the "performance indicator"). The amount of the total impairment related to all other factors shall be included in other comprehensive income (or shall be excluded from the "performance indicator"). In determining the amount of the total impairment related to credit losses the reporting entity shall use its best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. One way of estimating that amount would be to consider the measurement methodology described in paragraphs 12–16 of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. For debt securities that are beneficial interests in securitized financial assets within the scope of Issue 99-20 the amount of the total impairment related to credit losses shall be determined considering the guidance in paragraph 12(b) of Issue 99-20 related to determining whether there has been an adverse change in estimated cash flows from cash flows previously projected (that is, the cash flows estimated at the current financial reporting date shall be discounted at a rate equal to the current yield used to accrete the beneficial interest).

The previous cost basis less the impairment recognized in earnings (or the "performance indicator") would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

d. Paragraph 16:

In periods subsequent to the recognition of an other-than-temporary impairment loss for debt securities,[5] an investor shall account for the other-than-temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other-than-temporary impairment at a cost equal to the previous basis less the impairment recognized in earnings (or the "performance indicator"). That is, unless a sale is imminent, the discount or reduced premium

recorded for the debt security, based on the new cost basis, would be amortized over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows.

e. Paragraph 16A is added as follows:

The impairment recognized in other comprehensive income for held-to-maturity securities shall be amortized (through other comprehensive income) over the remaining life of the debt security in a prospective manner based on the amount and timing of future estimated cash flows by offsetting the recorded value of the asset unless there is a subsequent other-than-temporary impairment that is recognized in earnings (or the "performance indicator").

f. Paragraph 16B and its related heading are added as follows:

Presentation

In periods in which an enterprise determines that a security's decline in fair value below the amortized cost basis is other than temporary, the enterprise shall present the total impairment in the statement of earnings (or the "performance indicator") with an offset for the amount of the total impairment that is recognized in other comprehensive income (or outside of the "performance indicator"), if any. For example:

Impairment losses on securities	$xx,xxx
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	(x,xxx)
Net impairment losses	$xx,xxx

g. Paragraph 17:

For all investments in an unrealized loss[6] position, including those that fall within the scope of Issue 99-20, for which other-than-temporary impairments have not been recognized in earnings (or the "performance indicator"), an investor shall disclose the following in its annual financial statements (included in this disclosure are investments for which a portion of the impairment has been recognized in earnings (the portion related to credit losses) and a portion has only been recognized in other comprehensive income):

a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each category of investment that the investor discloses in accordance with Statements 115 and 124 (see paragraph 4(b)) and cost-method investments—in tabular form:
    (1) The aggregate related fair value of investments with unrealized losses

(2) The aggregate amount of unrealized losses (that is, the amount by which cost exceeds fair value).

The disclosures in (1) and (2) above shall be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer. The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point would be the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon either (a) the recognition of the total amount by which cost exceeds fair value as an other-than-temporary impairment in earnings (or the "performance indicator") or (b) the investor becoming aware of a recovery of fair value up to (or beyond) the cost of the investment during the period.

b. As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the investor considered (both positive and negative) in reaching the conclusion that the impairment(s) are not other than temporary. The application of Step 2 shall provide insight into the investor's rationale for concluding that unrealized losses are not other-than-temporary impairments. The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally shall not be aggregated. This disclosure could include:

(1) The nature of the investment(s)
(2) The cause(s) of the impairment(s)
(3) The number of investment positions that are in an unrealized loss position
(4) The severity and duration of the impairment(s)
(5) Other evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired, including, for example, industry analyst reports, sector credit ratings, volatility of the security's fair value, and/or any other information that the investor considers relevant.

h. Paragraph 18A is added as follows:

In periods in which an enterprise determines that a security's decline in fair below the amortized cost basis is other than temporary, and the total impairment is separated between the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors, entities shall disclose the methodology and key inputs used to measure the portion of the total impairment that relates to credit losses.

i. Paragraph A2:

U.S. Treasury Obligations. The unrealized losses on the Company's investments in U.S. Treasury obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company ~~has the ability and intent to hold those investments until a recovery of fair value~~ does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of its cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

j. Paragraph A3:

Federal Agency Mortgage-Backed Securities. The unrealized losses on the Company's investment in federal agency mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company ~~has the ability and intent to hold those investments until a recovery of fair value~~does not intend to sell the investments and it is more likely than not that the Company will not be required to the investments before recovery of its cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

k. Paragraph A4:

Corporate Bonds. The Company's unrealized loss on investments in corporate bonds relates to a $150 investment in Manufacturing Company's Series C Debentures. The unrealized loss was primarily caused by (a) a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry and (b) a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit Manufacturing Company to settle the security at a price less than the amortized cost of the investment. While Manufacturing Company's credit rating has decreased from A to BBB (S&P), the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investment. Therefore, it is expected that the debentures would not be settled at a price less than the amortized cost of the investment. Because the Company ~~has the ability and intent to hold this investment until a recovery of fair value~~does not intend to sell the investment and it is more likely than not that the Company will not be

required to sell the investment before recovery of its cost basis, which may be maturity, it does not consider the investment in Manufacturing Company's debentures to be other-than-temporarily impaired at December 31, 20X3.

l. Paragraph A5:

Marketable Equity Securities. The Company's investments in marketable equity securities consist primarily of investments in common stock of companies in the consumer tools and appliances industry ($17 of the total fair value and $2 of the total unrealized losses in common stock investments) and the air courier industry ($27 of the total fair value and $6 of the total unrealized losses in common stock investments). Within the Company's portfolio of common stocks in the consumer tools and appliances industry (all of which are in an unrealized loss position) approximately 26 percent of the total fair value and 21 percent of the Company's total unrealized losses are in Company R. The remaining fair value and unrealized losses are distributed in six companies. The severity of the impairment (fair value is approximately 5 percent to 12 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year-end sales experienced within the consumer tools and appliance industry, as reflected in lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools. The Company evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and the ~~Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value~~ fact that the Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their cost bases, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

m. Paragraph A6:

The Company's portfolio of common stocks in the air courier industry consists of investments in 4 companies, 3 of which (or 78 percent of the total fair value of the investments in the air courier industry) are in an unrealized loss position. The air courier industry and the Company's investees are susceptible to changes in the U.S. economy and the industries of their customers. A substantial number of their principal customers are in the automotive, personal computer, electronics, telecommunications, and related industries, and their businesses have been adversely affected by the slowdown of the U.S. economy, particularly during the second half of 20X3 when the Company's investments became impaired. In addition, the credit ratings of nearly all companies in the portfolio have decreased from A to BBB (S&P or equivalent designation). The severity of the impairments in relation to the carrying amounts of the individual investments (fair value is approximately 17 percent to 23 percent less than cost) is consistent with those market developments. The Company evaluated the near-

term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the ~~Company's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value~~fact that the Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their cost bases, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.

n. Paragraph A8:

The remaining $21 of cost-method investments consists of 1 investment in a privately owned company in the consumer tools and appliance industry. That investment was evaluated for impairment because of an adverse change in the market condition of companies in the consumer tools and appliance industry. As a result of that evaluation, the Company identified an unrealized loss of $1. The severity of the impairment (fair value is approximately 5 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year-end sales experienced within the consumer tools and appliance industry, as reflected by lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools. Based on the Company's evaluation of the near-term prospects of the investee and the ~~Company's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value~~ fact that the Company does not intend to sell these investment and it is more likely than not that the Company will not be required to sell the investment before recovery of its cost basis, the Company does not consider that investment to be other-than-temporarily impaired at December 31, 20X3.

A4. 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," is amended as follows:

a. Paragraph 5(e), as amended:

Are not beneficial interests in securitized financial assets that (1) are of high credit quality (for example, guaranteed by the U.S. government, its agencies, or other creditworthy guarantors, and loans or securities sufficiently collateralized to ensure that the possibility of credit loss is remote) and (2) cannot contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment. Instead, interest income on such beneficial interests should be recognized in accordance with the provisions of Statement 91, and determining whether an other-than-temporary impairment of such beneficial interests exists should be based on FSP FAS 115-a/FAS 124-a/EITF 99-20-b, *Recognition and Presentation of Other-Than-*

Temporary Impairments, FSP EITF 99-20-1, FSP FAS 115-1/124-1, Statement 115, SAB 59, SAS 92, and the Statement 115 Special Report.

b. Paragraph 12, as amended:

[The original Task Force consensus was superseded by FSP EITF 99-20-1 and FSP FAS 115-a/FAS 124-a/EITF 99-20-b.] The holder of a beneficial interest should continue to update the estimate of cash flows over the life of the beneficial interest. If upon evaluation:

a. Based on current information and events it is probable that there is a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected, then the investor should recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of estimated cash flows over the beneficial interest's reference amount (the reference amount is equal to (1) the initial investment less (2) cash received to date less (3) other-than-temporary impairments recognized in earnings (or the "performance indicator") to date [as described in paragraph 12(b)] plus (4) the yield accreted to date). The adjustment should be accounted for prospectively as a change in estimate in conformity with Statement 154 [Note: See paragraph 25 of the Status section.], with the amount of periodic accretion adjusted over the remaining life of the beneficial interest. Based on estimated cash flows, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety.
b. The fair value of the beneficial interest has declined below its reference amount, an enterprise should determine whether the decline is other-than-temporary. An entity should apply the impairment of securities guidance in paragraph 16 of Statement 115 and the related implementation guidance (see paragraphs 13, 13A, 13B, and 15 of this Issue). If based on current information and events it is probable that there has been an adverse change in estimated cash flows (in accordance with paragraph 12(a) above), then (1) an other-than-temporary impairment should be considered to have occurred and (2) the beneficial interest should be written down to fair value with the resulting change being ~~included~~recognized in accordance with paragraph 15 of FSP FAS 115-1/124-1 and presented in the income statement in accordance with paragraph 16B of FSP FAS 115-1/124-1. Determining whether there has been a favorable (or an adverse) change in estimated cash flows from the cash flows previously projected (taking into consideration both the timing and amount of the estimated cash flows) involves comparing the present value of the remaining cash flows as estimated at the initial transaction date (or at the last date previously revised) against the present value of the cash flows estimated at the current financial reporting date. The cash flows should be discounted at a rate equal to the current yield used to

accrete the beneficial interest. If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is less than the present value of the current estimated cash flows, the change is considered favorable (that is, an other-than-temporary impairment should be considered to have not occurred under the consensus in this Issue). If the present value of the original cash flows estimated at the initial transaction date (or the last date previously revised) is greater than the present value of the current estimated cash flows, the change is considered adverse (that is, an other-than-temporary impairment should be considered to have occurred under the consensus in this Issue). However, absent any other factors that indicate an other-than-temporary impairment has occurred, changes in the interest rate of a "plain-vanilla," variable-rate beneficial interest generally should not result in the recognition of an other-than-temporary impairment (see footnote 2, Exhibit 99-20A) (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).

c. Paragraph 15, as amended:

The Task Force observes that, consistent with Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value," when an entity intends to sell a specifically identified beneficial interest classified as available-for-sale at a loss shortly after the balance sheet date whose fair value is less than its carrying amount and the entity does not expect the fair value to recover prior to the expected time of the sale, a write-down for other-than-temporary impairment should be recognized in earnings in the period in which the decision to sell is made. [Note: See paragraph 28 of the STATUS section.] Furthermore, SAB 59, SAS 92, the Statement 115 Special Report, and FSP FAS115-1/124-1 provide additional guidance to consider when determining whether an other-than-temporary impairment exists. For example, an other-than-temporary impairment exists if as FSP FAS115-1/124-1 states, "The investor intends to sell the security or it is more likely than not that the investor will be required to sell the security before the recovery of its cost basis."~~SAB Topic 5M states, "[The holder does not have] the intent and ability . . . to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value."~~

d. Paragraph 29A is added as follows:

FSP FAS 115-a/FAS 124-a/EITF 99-20-b, issued in April 2009, amends paragraphs 5(e), 12, and 15 of Issue 99-20. These amendments are conforming changes that reflect the Board's decisions to amend guidance for recognizing and presenting other-than-temporary impairments.