

FASB Proposes Fair Value Reporting of Financial Instruments

May 28, 2010

Dear clients and friends:

The **Financial Accounting Standards Board** on May 26 issued a Proposed Accounting Standards Update that would require banks and other entities to measure most loans and other financial instruments at fair value in their statements of financial position for each reporting period.

If adopted, the FASB proposal would require banks each quarter to report most loans other than lines of credit at estimated fair market value as well as at their amortized original cost. For many banks, the impact would be significant because their mark-to-market valuations would include numerous commercial real estate loans on which borrowers are current but whose appraised values have fallen due to problems in the economy and the real estate markets. That reporting could result in reductions in total assets and a need to raise capital to meet bank regulators' capital-to-asset requirements.

The proposal is an **Exposure Draft** Accounting for Financial Instruments and Revisions to the *Accounting for Derivative and Hedging Activities –Financial Instruments (Topic 825) and Derivatives Hedging (Topic 815)*.

Prior to the FASB Codification Topic 825 was Financial Statement 159 (FAS 159) *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*. Topic 815 was Financial Statement No. 133 (FAS 133) *Accounting for Derivative Instruments and Hedging Activity*.

In a **news release** the FASB said the proposed changes “would seek to bring more transparency into financial statements by incorporating both amortized cost and fair value information about financial instruments held for collection or payment of cash flows.”

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The FASB said the earliest effective date of new requirements would be January 1, 2013. Non-public entities with less than \$1 billion in total consolidated assets would be allowed a four-year deferral beyond the effective date from certain requirements relating to loans and core deposits.

On May 26, the FASB also issued an **Exposure Draft on a Proposed Accounting Standards Update** on *Comprehensive Income (Topic 220): Statement of Comprehensive income*. Topic 220 was Financial Statement No. 130

(FAS 130) *Reporting of Comprehensive Income*.

The proposal would require total comprehensive income and its components in two parts, net income and other comprehensive income, to be displayed in a continuous statement of financial performance. The FASB did not set a proposed date for adoption of the changes, but said they would not be retroactive.

The FASB is accepting comments on both proposals through September 30, 2010.

If you would like additional information on the FASB proposals on fair value accounting and reporting of comprehensive income, do not hesitate to contact us at (305) 373-5500.

Sincerely,



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