



FAIR VALUE MEASUREMENT YARDSTICK

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It's not often the Financial Accounting Standards Board (FASB) issues a pronouncement with such a pervasive effect on existing accounting pronouncements as FASB Statement No. 157, Fair Value Measurements (FAS 157). Since FAS 157 amends over 20 Accounting Principles Board Opinions and FASB pronouncements that require or permit fair value measurements, it's no surprise the provisions of this Statement have implications for companies of all shapes and sizes.

Just to keep us on our toes, FASB Statement No 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), an offshoot of FAS 157, was also issued with the same effective date. Now the question is: "How do I ensure these Statements are appropriately and broadly adopted"?

Jefferson Wells launched its Technical Accounting and Reporting service offering in July 2007 with a primary objective of addressing our clients' needs regarding interpreting and implementing complex accounting pronouncements and related guidance. Standards with fair value provisions are on the top of the list, and our technical accounting and reporting service consultants recognize that in the case of fair value accounting, professional accountants are being asked to do much more than interpret standards with fair value provisions. They need to understand how each Standard is affected by FAS 157 and FAS 159 to drive a clear understanding of their company's position when applying

each standard and the implications for the enterprise as a whole.

The objective of this report is to "connect the dots" with standards containing fair value provisions, using FAS 157 and FAS 159 as benchmarks. FAS 157 and FAS 159 establish the framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expand disclosure requirements related to fair value measurements.

THE FAS 157 AND FAS 159 BENCHMARK

In developing FAS 157, FASB considered the need for increased consistency and comparability in fair value measurements and for expanded fair value measurement disclosures. Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair value measurements. Differences in that guidance created inconsistencies that added to the complexity in applying GAAP. As FASB previously concluded in accounting pronouncements issued prior to FAS 157 stating that fair value is the relevant measurement attribute, FAS 157 does not require any new fair value measurements of items recorded as of the effective date of FAS 157. However, for some entities, the application of FAS 157 will change current practice going forward.

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Further, the following FASB Staff Positions (FSP) amend the provisions included in FAS 157:

- FSP FAS 157-1 (February 14, 2008): This FSP amends FASB Statement No. 157, Fair Value Measurements, to exclude FASB Statement No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under FASB Statement No. 141, Business Combinations, or No. 141 (revised 2007), Business Combinations. This is regardless of whether those assets and liabilities are related to leases.
- FSP FAS 157-2 (February 12, 2008): This FSP delays the effective date of FAS 157, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

FAS 159 expands the standards of FAS 157, allowing companies an irrevocable one-time election (Fair Value

Option or FVO) to measure financial instruments and certain other items (described below) at fair value on a contract-by-contract basis, with few exceptions. FAS 159 also amends Statement No. 115 (FAS 115) to require the presentation of investments in available-for-sale securities and trading securities:

- In the aggregate of those fair value and non-fair value amounts in the same line item and parenthetically disclose the amount of fair value included in the aggregate amount, or
- In two separate line items to display the fair value and non-fair-value carrying amounts.
- Instruments within the scope of FAS 159 include: equity method investments; equity securities without readily determinable fair values; insurance and reinsurance contracts that are financial instruments; warranty obligations that are financial liabilities and warranty rights that are financial assets; and unconditional purchase obligations.

To assist our clients in addressing the complexities involved in adopting the provisions of FAS 157, highlighted below are key pronouncements affected by FAS 157:

FASB Pronouncement		Summary
SFAS 87	Employers' Accounting for Pensions (subsequently amended by FAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)).	This Statement requires extensive use of present value techniques in estimating the current value of pension benefits earned each period, and the employer's liability for benefits accrued. It requires the disclosure of the fair value of plan assets. FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.
SFAS 106	Employers' Accounting for Postretirement Benefits Other Than Pensions, as amended by SFAS 158.	This Statement applies the same present value techniques as SFAS 87 to determine current compensation expense and postretirement benefit liability. It also requires the disclosure of the fair value of plan assets. FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.
SFAS 107	Disclosures About Fair Value of Financial Instruments.	This Statement provides the definition of a financial instrument, defines its fair value, and extends existing fair value disclosure practices for some instruments by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. If estimating fair value is not practicable, this Statement requires disclosure of descriptive information pertinent to estimating the value of a financial instrument. FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.

FASB Pronouncement		Summary
SFAS 115	Accounting for Certain Investments in Debt and Equity Securities.	<p>Requires that certain investments in debt and equity securities, not classified as either held-to-maturity securities or trading securities, are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.</p> <p>FAS 159 amends this Statement to require the presentation of investments in available-for-sale securities and trading securities, either in the aggregate of those fair value and non-fair-value amounts in the same line item and parenthetically disclose the amount of fair value included in the aggregate amount, or in two separate line items to display the fair value and non-fair-value carrying amounts.</p>
SFAS 133	Accounting for Derivative Instruments and Hedging Activities, as amended.	<p>This Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. It also provides that a derivative may be specifically designated as: a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; a hedge of the exposure to uncertain cash flows of a forecasted transaction (such as the future issuance of a bond); or a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction.</p> <p>FAS 157 should be applied retrospectively to a hybrid financial instrument that was measured at fair value at initial recognition under Statement 133 using the transaction price in accordance with the guidance in Statement 133 (as added by Statement 155) prior to initial application of FAS 157.</p>
SFAS 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended.	<p>This Statement provides accounting and reporting requirements for a transfer and servicing of a financial asset and the extinguishment of a liability, as well as the definition of the fair value of an asset (or liability). It defines fair value as the amount at which the asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties; that is, other than in a forced or liquidation sale. After a transfer of financial assets, an entity must recognize the financial and servicing assets it controls and the liabilities it has incurred, and derecognize financial assets when control has been surrendered and liabilities when they are extinguished.</p> <p>FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.</p>
SFAS 141-R	Business Combinations – a replacement of FASB Statement No. 141.	<p>This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. Guidance from Statement 141 resulted in not recognizing some assets and liabilities at the acquisition date. It also resulted in measuring some assets and liabilities at amounts other than their fair values at the acquisition date. For example, Statement 141 required the acquirer to include the costs incurred to effect the acquisition (acquisition-related costs) in the cost of the acquisition that was allocated to the assets acquired and the liabilities assumed. Therefore, this Statement improves the relevance, completeness and representational faithfulness of the information provided in financial reports about the assets acquired and the liabilities assumed in a business combination.</p> <p>FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.</p>
SFAS 142	Goodwill and Other Intangible Assets.	<p>This Statement requires that goodwill and other intangible assets with indefinite lives be periodically tested for impairment, using certain specified valuation procedures, and written down if impaired (that is, when the fair value of the intangible asset is less than its book value).</p>

FASB Pronouncement		Summary
SFAS 143	Accounting for Asset Retirement Obligations.	<p>This Statement addresses financial reporting of obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.</p> <p>FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.</p>
SFAS 144	Accounting for the Impairment or Disposal of Long-Lived Assets.	<p>This Statement requires impairment testing for long-term assets used in the business, assets to be disposed of, and intangible assets with finite lives. The changes in this Statement improve financial reporting by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. Therefore, the accounting for similar events and circumstances will be the same. Additionally, the information value of reported financial information will be improved. Finally, resolving significant implementation issues will improve compliance with the requirements of this Statement and, therefore, comparability among entities and the representational faithfulness of reported financial information. This Statement retains the requirements of SFAS 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset.</p>
SFAS 146	Accounting for Costs Associated with Exit or Disposal Activities.	<p>This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities. This Statement affirms FASB's view that a fair value measurement is the most relevant and faithful representation of the underlying economics of a transaction. As discussed in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, fair value is the objective for initial measurements that are developed using present value techniques.</p> <p>This Statement considers the qualitative characteristics discussed in FASB Concepts Statement No. 2, Qualitative Characteristics of Accounting Information, specifically, that providing comparable financial information enables investors, creditors and other users of financial statements to identify similarities in, and differences between, two sets of economic events. Ultimately, that financial information facilitates their investment, credit and other resource allocation decisions and contributes to the efficient functioning of the capital markets.</p> <p>FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.</p>
SFAS 153	Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29, revises the guidance in APB Opinion No. 29.	<p>This Statement addresses accounting for non-monetary transactions, which is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Opinion 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar productive assets. That exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. This Statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance—that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. By focusing the exception on exchanges that lack commercial substance, FASB believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. Moreover, in making that amendment, FASB decided to use language that is similar to that used in IAS 16, noting that doing so would promote more consistent application of the requirements of those standards.</p> <p>FAS 157 does not eliminate the practicability exceptions to fair value measurements in this Statement.</p>

Note: The list above is not exhaustive. A comprehensive list of APB Opinions, FASB Statements, Interpretations, Technical Bulletins and Staff Positions that require fair value reporting and disclosure is provided below. Also see appendix D of FAS 157. Pronouncements that are amended by FAS 157 are indicated by an asterisk.

Statement 15	Accounting by Debtors and Creditors for Troubled Debt Restructurings
Statement 19*	Financial Accounting and Reporting by Oil and Gas Producing Companies
Statement 23	Inception of the Lease
Statement 28	Accounting for Sales with Leasebacks
Statement 35*	Accounting and Reporting by Defined Benefit Pension Plans
Statement 45	Accounting for Franchise Fee Revenue
Statement 60*	Accounting and Reporting by Insurance Enterprises
Statement 61	Accounting for Title Plant
Statement 63*	Financial Reporting by Broadcasters
Statement 65*	Accounting for Certain Mortgage Banking Activities
Statement 66	Accounting for Sales of Real Estate
Statement 67*	Accounting for Costs and Initial Rental Operations of Real Estate Projects
Statement 68	Research and Development Arrangements
Statement 84	Induced Conversions of Convertible Debt
Statement 87*	Employers' Accounting for Pensions
Statement 98	Accounting for Leases
Statement 106*	Employers' Accounting for Postretirement Benefits Other than Pensions
Statement 107*	Disclosures about Fair Value of Financial Instruments
Statement 114	Accounting by Creditors for Impairment of a Loan
Statement 115*	Accounting for Certain Investments in Debt and Equity Securities
Statement 116*	Accounting for Contributions Received and Contributions made
Statement 124*	Accounting for Certain Investments Held by Not-for-Profit organizations
Statement 126	Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities Accounting for Derivative Instruments and Hedging Activities
Statement 133*	Accounting for Derivative Instruments and Hedging Activities
Statement 136*	Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for others.

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Statement 138	Accounting for Certain Derivative Instruments and Certain Hedging Activities
Statement 140*	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
Statement 141*	Business Combinations
Statement 142*	Goodwill and Other Intangible Assets
Statement 143*	Accounting for Asset Retirement Obligations
Statement 144*	Accounting for the Impairment or Disposal of Long-Lived Assets
Statement 146*	Accounting for Costs Associated with Exit or Disposal Activities
Statement 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
Statement 150*	Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity
Statement 153	Exchanges of Nonmonetary Assets
Statement 156*	Accounting for Servicing of Financial Assets

FASB Interpretations (FIN)

9	Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method
23	Leases of Certain Property Owned by a Governmental Unit or Authority
24	Leases Involving Only Part of a Building
45*	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others
46	(revised December 2003) Consolidation of Variable Interest Entities
47	Accounting for Conditional Asset Retirement Obligations

EMERGING ISSUE TASK FORCE (EITF)

Technical Bulletin 84-1:

Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement

Technical Bulletin 85-1:

Accounting for the Receipt of Federal Home Loan Mortgage Corporation Participating Preferred Stock

Technical Bulletin 85-5:

Issues Relating to Accounting for Business Combinations

Technical Bulletin 85-6:

Accounting for a Purchase of Treasury Shares at a Price

Significantly in Excess of the Current Market Price of the Shares and the Income Statement Classification of Costs Incurred in Defending against a Takeover Attempt

Technical Bulletin 86-2:

Accounting for an Interest in the Residual Value of a Leased Asset

Technical Bulletin 88-1:

Issues Relating to Accounting for Leases

ACCOUNTING PRINCIPLES BOARD (APB)

Opinion 18:

The Equity Method of Accounting for Investments in Common Stock

Opinion 21*:

Interest on Receivables and Payables

Opinion 28*:

Interim Financial Reporting

Opinion 29*:

Accounting for Non-monetary Transactions

FASB STAFF ACCOUNTING POSITIONS (FSP-FAS/FIN)

FSP FAS 115-1 and 124-1:

The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

FSP FAS 143-1:

Accounting for Electronic Equipment Waste Obligations

FSP FAS 144-1:

Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15 and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB - Statement No. 144

FSP FAS 150-1:

Issuer's Accounting for Freestanding Financial Instruments

Issuer's Accounting for Freestanding Financial Instruments Composed of More Than One Option or Forward Contract Embodying Obligations under FASB Statement No. 150

FSP FAS 150-2:

Accounting for Mandatorily Redeemable Shares Requiring Redemption by Payment of an Amount that Differs from the Book Value of Those Shares under FASB Statement No. 150

FSP FAS 150-3:

Effective Date, Disclosures and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests under FASB Statement No. 150

FSP FAS 150-4:

Issuers' Accounting for Employee Stock Ownership Plans under FASB Statement No. 150

FSP FIN 45-2:

Whether FASB Interpretation No. 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value

FSP FIN 46(R)-2:

Calculation of Expected Losses under FASB Interpretation No. 46(R)

FSP FIN 46(R)-3:

Evaluating Whether as a Group the Holders of the Equity Investment at Risk Lack the Direct or Indirect Ability to Make Decisions about an Entity's Activities through Voting Rights or Similar Rights under FASB Interpretation No. 46(R)

FSP FIN 46(R)-5:

Implicit Variable Interests under FASB Interpretation No. 46(R)

FSP FIN 46(R)-6:

Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)

FSP FTB 85-4-1:

Accounting for Life Settlement Contracts by Third-Party Investors

FSP AAG INV-1 and SOP 94-4-1:

Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans

