



**Topic of the Month: FASB Statement No. 159 – An end to mandated “effectiveness testing”**

An excerpt from Compass Analytics March 2007 *Month in Review*

Company XYZ  
Balance Sheet  
(\$ in 000s)

<u>Assets</u>	<u>At December 31, 2008</u>
Loans (\$200 at fair value)	\$150

Selected Illustrative Fair Value Disclosures: (\$ in 000s)

<u>Description</u>	<u>B/S @ 1/1/08 Prior to Adoption</u>	<u>Net Gain/(Loss) Upon Adoption</u>	<u>B/S 1/1/08 After Adoption FVO</u>
Loans, net	\$120	\$(26)	\$94
Pretax cumulative effect of adoption of the FV option		\$(26)	
Increase in deferred tax asset		\$8	
Cumulative effect of adoption of FV Option (charged to retained earnings)		\$(18)	

The Statement requires that a company provide information about the extent to which the fair value option is elected for existing eligible items at the time of initial adoption in a manner that reconciles to the cumulative-effect adjustment to retained earnings. That information may be presented as above.

The \$26,000 net loss for loans that was recorded as part of the cumulative-effect adjustment to retained earnings upon initial adoption of this Statement would include any allowance amount which was removed from the allowance account for loan losses.

This same note could include the following additional disclosures required by the Statement: (a) management’s reasons for electing the fair value option for each existing eligible item or group of similar eligible items and (b) if the fair value option is elected for some but not all eligible items within a group of



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similar eligible items, (1) a description of those similar items and the reasons for partial election and (2) information to enable users to understand how the group of similar items relates to individual line items on the balance sheet.

The following represents the fair value hierarchy table set forth in Statement 157, supplemented to provide information about where in the income statement changes in fair value s of assets and liabilities for which the fair value option has been elected are included in earnings.

Fair Value Measurements at December 31, 2008  
Using Quoted Prices

Inputs	Fair Value Measurements	In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable
<u>Description</u>	<u>12/31/08</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Loans	\$200	0	\$150	\$50

Changes in Fair Values for the 12-Month Period Ended December 31, 2008, for Items  
Measured at Fair Value Pursuant to Election of the FV Option

<u>Description</u>	<u>Other Gains &amp; Losses</u>	<u>Interest Income On Loans</u>	<u>Total Changes in FV Included in Current Period Earnings</u>
Loans	\$(3)*	\$10	\$7

- Represents allowance amount that was removed from allowance account for loan losses