

## **Audit Alert: All Entities Permitted to Report Financial Assets and Financial Liabilities at Fair Value**

On February 15, 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which provides all entities, including not-for-profit organizations, with an option to report selected financial assets and liabilities at fair value. The objective of the Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. The following items are eligible for the irrevocable fair value measurement option established by Statement No. 159:

- Recognized financial assets and financial liabilities except:
- An investment in a subsidiary that the entity is required to consolidate
- An interest in a variable interest entity that the entity is required to consolidate

Employers' and plans' obligations (or assets representing net over funded positions) for pension benefits, other postretirement benefits (including health care and life insurance benefits), post employment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined

- Financial assets and financial liabilities recognized under lease accounting
- Deposit liabilities, withdrawable on demand, of banks, savings and loan associations, credit unions, and other similar depository institutions
- Financial instruments that are, in whole or in part, classified by the issuer as a component of shareholder's equity, including "temporary equity".
- Firm commitments that would otherwise not be recognized at inception and that involve only financial instruments
- Non-financial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services
- Host financial instruments resulting from separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument.

The fair value option:

- May generally be applied instrument by instrument
- Is irrevocable unless certain events occur
- Is applied to the entire instrument and not to any portion of it.

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The Standard also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*.

Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of Statement No. 157, *Fair Value Measurements*. The Statement is available in full at <http://www.fasb.org/pdf/fas159.pdf>