

Ernst & Young's On Call Advisory Services Accounting Alert

Tuesday, February 20, 2007

FASB issues Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities*



FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, provides companies with an option to report selected financial assets and liabilities at fair value. The Standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently.

Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings.

The FASB believes that Statement 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting.

Statement 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

For example, Statement 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*.

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This Statement 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 the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of Statement 157.

If you have any questions please call your On-Call team or

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On-Call Advisory Services:

Ernst & Young's On-Call Advisory Services Group assist clients with accounting, tax and regulatory aspects of securitization, derivative, M&A, compensation, leasing and structured transactions. This experienced group is available 24/7 via phone, fax, email, or in person. In addition to our On-Call Advisory, we provide related services such as operational reviews, due diligence, and training sessions.

This alert is correct to the best of our knowledge and belief as at the date of this alert. It is, however, written in general terms and professional advice must always be obtained before any action is taken.