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# Client Advisory

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## Improving Transparency in Turbulent Times

The severity of the recent losses in the financial markets took many investors by surprise, sending shock waves through the economy and fueling concerns about the transparency of financial reporting.

To help restore confidence in reporting and in the markets, the FASB is rushing out an unusually heavy dose of disclosure requirements. In a flurry of last-minute standard-setting activity, some new requirements were issued or proposed in late-December with the expectation that the changes would be applied to calendar-year 2008 financial statements, and a second round of disclosure requirements is likely to be issued and effective in 2009.

A key question as companies plan for 2009 is “Will the changes in reporting help restore confidence in the markets?”

Many of the new requirements focus attention on risks, and this may help prevent more unpleasant surprises.

Examples of the new risk-related and other requirements are summarized below.

### Added Disclosure Requirements

- The extent to which a bank or other company uses derivatives and the effects on its financial position.
- The risks associated with credit default swaps.
- The risks related to off-balance sheet entities and the related events or circumstances that could expose a company to losses.
- The risks associated with the assets in a company’s defined benefit pension or other postretirement plan.

Additional details are provided in this Advisory. To help you weather the storm, this BDO Advisory highlights the areas already targeted for more robust disclosures and alerts you to the proposals in process.

## Areas of Greater Transparency

For the most part, the areas targeted by the FASB for more robust disclosures are those where the related risks have been neither visible nor well understood by investors, analysts, and regulators. Many of these areas figured prominently in the headlines during 2008 as the aftershock from the large losses reported by major financial institutions reverberated through the world's economy. They include off-balance sheet entities, derivatives, and retirement plan assets.

### 1. Off-Balance Sheet Entities

The first shocks to shake the US economy in 2007 and 2008 appeared to relate primarily to the bursting of the housing bubble and the fallout for subprime mortgage loans. But the impact of these events was multiplied by two trends that had been building quietly for years without any visibility in financial reports. The trends were the growth of securitizations and structured investment vehicles (SIVs).

- *Securitization* is a technique that allows a lender (such as a mortgage lender), to package loans as securities and transfer the securities to other parties. In the past, these transactions may have lacked transparency because: (a) lenders are not required to retain any portion of the securities, and (b) until recently, US accounting standards did not require lenders to disclose detailed information about all transfers of this type in their financial statements.
- SIVs are special purpose entities (SPEs) that purchase securitizations. Unlike traditional SPEs that tended to buy a single

type of security and use match funding, SIVs often buy a variety of securities and fund long-term securities with short-term debt. Often the SIVs were supported by liquidity guarantees from their sponsors, which did not report the entities' assets and liabilities in their consolidated financial statements. When the liquidity of SIVs' commercial paper diminished in late 2007 and early 2008, sponsors reevaluated the consolidation decision.

Some have criticized the lack of visibility of these trends as a loophole that led to unforeseen risks and unpleasant surprises and allowed the "toxic" loans from the subprime crisis to escape the scrutiny of investors and regulators.

**More visibility for securitizations and SPEs may shed new light on unforeseen risks.**

In response to these concerns, the FASB decided to take another look at both the consolidation principles and the disclosure requirements.

- **Consolidation principles.** The applicable accounting principles are found in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*. These standards indicate that an entity need not be consolidated if: (a) it is a passive entity that does not require active management, or (b) it is an actively managed entity but the sponsor is not expected to absorb a majority of the entity's expected losses

or expected residual returns. SIVs were left unconsolidated under these criteria. The FASB plans to amend the criteria in the near future to address entities like these that can carry unforeseen risks.

- **Disclosure requirements.** To provide for immediate improvements in transparency, the FASB issued an “objectives-oriented” disclosure standard, FSP FAS 140-4 and FIN 46(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.” This FSP lists extensive additional reporting requirements and also indicates that companies must use judgment in providing information that meets certain stated objectives. In some cases, a company might need to provide information that is not specifically mentioned in the accounting standard in order to meet the objectives.

An overview of the added disclosure requirements for off-balance sheet entities and transfers of financial assets is provided in Table 1. These requirements are effective now.

## 2. Derivatives and collateralized debt obligations (CDOs)

Several relatively new kinds of derivatives and other financial instruments were often used with off-balance sheet entities. The instruments, known as CDOs and credit default swaps, are also lacking in transparency in key respects.

- CDOs are complex financial instruments that represent pools of credit exposure based on packages of asset-backed securities, such as mortgage bonds. CDOs don't trade openly on public exchanges, and

they have not been the subject of robust disclosures. The market for CDOs grew rapidly in the past five years. But investors were surprised to find that top ratings belied risks in some cases. Starting in 2008, investors saw a sharp increase in defaults and downgrades of top-rated CDOs. This trend caused huge unforeseen losses and put pressure on market prices for other CDOs, resulting in requests for the FASB to rethink the accounting standards for these instruments.

- *Credit default swaps* are private financial contracts that act as a form of unregulated insurance against bond and loan defaults. Sellers of these instruments must make large payouts if defaults occur. Sometimes, sellers must post substantial collateral even if a default does not occur. Their use has grown exponentially in recent years, and they too can carry unforeseen risks. During the past year, defaults occurred unexpectedly on debt with formerly top-notch ratings, such as Lehman Brothers. Making matters worse, many contracts written on individual companies are thinly traded and prone to wild swings. The losses resulting from unforeseen risks associated with these and other off-exchange derivatives have attracted the attention of both regulators and standard-setters.

Although the proliferation of new instruments and unexpected losses were not its sole reasons for doing so, the FASB issued two releases during 2008 that increased the reporting requirements for derivatives in general and credit derivatives in particular. The Board also issued a release that addresses the accounting for CDOs and other

instruments covered by EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets." Brief recaps of the related releases are as follows:

- **Accounting for CDOs.** In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20." This FSP addresses concerns about losses recorded in illiquid markets by companies with beneficial interests in securitized financial assets subject to Issue 99-20. A key issue was the lack of comparability with the accounting for other instruments, with regard to the recording of impairment losses.
- **Disclosures about all derivatives.** In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. Among other things, the disclosures required by Statement 161 provide information about the reasons for using derivatives, the primary risks involved, and the effects on a company's financial position, results of operations and cash flows.
- **Disclosures about credit derivatives and guarantees.** Later in the year, as the credit crisis deepened, the FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees." This FSP requires companies to provide more information about events that will trigger payouts by sellers, and it aligns the requirements for two similar kinds of contracts involving guarantees: (a) contracts that meet the definition of a derivative or embedded derivative, and (b) guarantee contracts that do not meet the definition of a

derivative. The added disclosure requirements are summarized in Table 1 and are effective now.

### 3. Retirement Plan Assets

Retirement plan assets and funding levels have become exposed to more risks in recent months due to a combination of factors, including legislation that requires higher funding levels and a general stock market decline. The resulting risks relate to funding shortfalls, systemic economic stress, and alternative investments.

- *Funding shortfalls.* The decline in the financial markets has lessened the value of pension plan assets, making it more difficult for employers to meet the funding requirements of the Pension Protection Act of 2006. This Act requires that pension plans transition to a 100% funding target by 2011, and it sets funding targets for the intervening years. Although Congress provided some relief in the Worker, Retiree, and Employer Recovery Act of 2008, the steep declines in equity markets may well leave many pension plans with significant funding shortfalls and a need for sizable cash contributions.
- *Systemic stress.* Workers' pensions are insured by the U.S. Pension Benefit Guaranty Corp. (PBGC). In November 2008, the PBGC expressed concerns about the use of pension funds by major automobile makers to cover restructuring expenses, such as buyouts and early retirements. A key concern is the impact on the PBGC's finances. The PBGC could find it needs to cover billions of dollars in pensions if one or more of the major auto

makers needs to file for bankruptcy protection.

- *Alternative investments.* In addition, large pension funds with diverse portfolios are reportedly concerned about their exposure to risks associated with private equity firms, hedge funds, and other nontraditional investments (collectively known as alternative investments). These risks include the possibility of capital calls that might force a pension fund to sell its traditional investments in stocks and bonds at a time when market prices are depressed.

Like the federal funding requirements, the latest changes in the accounting for pension plans were put in place well before the stock market plunged. But, like Congress, the FASB found itself responding to the severity of the decline in December 2008. The FASB's response was to strengthen the disclosure requirements to help users of financial statements better understand the risks associated with the asset portfolios and funding levels. Brief recaps of the accounting and disclosure requirements are as follows:

- **Accounting for pensions.** Retirement plans are covered by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* reporting. This Statement requires that companies report the funded status of their defined benefit pension and other postretirement benefit plans as assets or liabilities on their balance sheets, rather than solely in the notes to the financial statements as had been the case prior to issuance of Statement 158. Recognizing the challenges encountered in 2008, the FASB announced a new project in February 2009 designed to provide measurement and disclosure

guidance on "Applying fair value to interests in alternative investments, such as hedge funds and private equity funds." The FASB has indicated that it expects this project will be completed in second quarter 2009.

- **Disclosure requirements.** In late December 2008, the FASB strengthened some aspects of the disclosure requirements for retirement plan assets in time for first quarter 2009 results through issuance of FSP FAS 132-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP requires employers to drill down and provide more transparency around the risks associated with the various types of assets in defined benefit pension or other postretirement plans.

**Added disclosures may help users understand the risks associated with retirement plans.**

The added disclosure requirements for retirement plans are summarized in Table 1. These requirements will take effect for calendar year 2009 financial reporting.

#### 4. Loss Contingencies

Conditions such as burst bubbles, unforeseen risks, and unpleasant surprises are often followed by lawsuits, and the subprime crisis has been no exception. Research shows that class-action lawsuits spiked in 2008 as angry investors filed legal proceedings. Ironically, sometimes it is the lawsuits themselves that cause the surprises. Investors have complained that they do not have adequate information to assess the likelihood,

timing and amount of future cash flows associated with loss contingencies, such as settlements of liabilities related to environmental matters and pending lawsuits of all types.

The accounting for potential payouts on pending lawsuits is covered by FASB Statement No. 5, *Accounting for Contingencies*. The FASB had planned to reconsider the accounting principles in Statement 5 as part of a larger project on accounting for nonfinancial liabilities and contingencies. But the accounting part of the project was deferred until the Board could consider whether to address this topic as part of a joint project with the IASB. In the meantime, to provide investors with timely information to better understand the risks associated with loss contingencies, the FASB released some proposed disclosure requirements in 2008.

- **Accounting for contingencies.**

Statement 5 requires that a company recognize in its financial statements estimated losses from loss contingencies if two conditions are met: (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (b) the amount of loss can be reasonably estimated. The probable threshold is a judgment call that investors say is often not made in time to provide a sufficient early warning.

- **Disclosure requirements.** To help investors and other users of financial statements, the FASB released a proposal in June 2008 that would have expanded the disclosures about contingencies that are not required to be recognized in the financial statements. The proposal called for companies to disclose

information about all loss contingencies, including those that are deemed remote, if: (a) management expects the contingency will be resolved within the next twelve months, and (b) it could have a significant effect on the financial statements. If adopted as proposed, this requirement would have been effective for 2008 calendar year financial statements.

***More information about loss contingencies could help warn investors of impending lawsuits.***

In response to comments received on the proposal, the FASB is reconsidering the issues. The comments expressed concerns that the disclosures might prejudice pending litigation. The FASB expects to issue a revised proposal that, if adopted as a final standard, will take effect for calendar year 2009 financial statements.

## 5. Certain Financial Assets

The use of fair value as a measure of financial assets has stirred considerable controversy and represents something of a double-edged sword. On the one hand, critics challenge its relevance, especially for thinly traded financial instruments when financial markets are inactive or distressed. On the other hand, the FASB is concerned that investors may have difficulty assessing the risks associated with the effects of financial and economic turmoil on financial assets that are not measured at fair value. As a result of these concerns, the FASB is reconsidering both the accounting and the disclosure requirements for financial assets.

- **Accounting principles.** Current accounting standards permit different measurements for different types of financial assets. Critics of this approach say it has not only added complexity to the accounting and financial reporting for these assets, but also raised concerns about a relative lack of transparency and comparability. In response to these concerns, the FASB has agreed to work together with the International Accounting Standards Board on a comprehensive project to address the accounting treatment for all financial instruments. In addition, the FASB announced two new projects in February 2009 that are designed to provide related guidance. One is on “Determining when a market for an asset or a liability is active or inactive.” The other is on “Determining when a transaction is distressed.” The FASB indicated these projects would be completed in second quarter 2009.

- **Disclosure requirements.** In the meantime, the Boards proposed in late 2008 to expand the disclosure requirements to provide more comparable information using ranges of asset values using the various alternative types of measurements used today. Most notably, the FASB proposed that companies should report a tabular comparison of asset values measured in each of the following ways: (a) as reported in the statement of financial position, (b) at fair value, and (c) at the incurred loss amount. If adopted as proposed, the added disclosure requirements would have been effective for calendar year 2008 reporting. But many companies felt this was neither realistic nor cost-justified.

After consideration of comments received on the proposal for added disclosure requirements, the Board decided to revise its proposal.

### *The FASB proposed disclosure of ranges of asset values using alternative measures.*

If adopted as currently drafted, Proposed FSP FAS 107-b and APB 28-a, “Interim Disclosures about Fair Value of Financial Instruments,” would drop the proposed disclosure of ranges of assets using alternative measures and instead increase the frequency of the existing disclosures of fair value from annual reporting periods to *both* annual and interim reporting periods starting with periods ending after March 15, 2009 as summarized in Table 1.

## 6. Other Areas

The FASB has also increased the disclosures about uncertain tax positions for non-public companies, and targeted several other areas for increased transparency. Most notably, the Board has announced that it expects to issue added disclosure requirements in 2008 for loan loss reserves and to undertake a general project on improving disclosures about fair value measurements.

Highlights of the projects and proposals are presented in Table 2. Most of the requirements highlighted in Table 2 are expected to take effect for 2009 financial reporting. The only exception is the disclosures about uncertain tax positions which are effective now.

## BDO Viewpoint

Investors want credible financial reporting, and companies want to provide meaningful data in the notes to the financial statements. The FASB has released a torrent of disclosure requirements this past year, and many will find the added disclosure requirements timely and helpful. But even a cursory review of the extent of the changes made in the past year and contemplated for the coming year can't help but raise a few questions.

### Critical Questions

We think the most critical questions are:

- Are the expanded disclosures sufficient to restore confidence in financial reporting and address the deficiencies revealed by the financial crisis of 2008?
- Are all of the disclosures cost justified?
- Is the guidance sufficiently specific and standardized so that companies can follow it and investors can locate it easily?
- What can be done to ensure meaningful disclosures in the future?

While a complete set of answers is elusive, a few observations seem painfully clear. First, there seems to be little doubt that investors were caught by surprise by unforeseen risks. And we would speculate that perhaps some major corporations were taken by surprise, too, and didn't fully understand the extent of the risks they were taking. Second, although these are unusual times and there is room for patience and forbearance with rushed-out last-minute standards in a time of crisis, our instincts tell us that many would prefer a more systematic and comprehensive approach to disclosures in the future.

Could the financial reporting community band together and work together to accomplish that goal? Based on our analysis of the disadvantages of piecemeal disclosures, we think the short answer is, "Yes, we can, and we should."

### Disadvantages of Piecemeal Disclosures

There are three key drawbacks to today's piecemeal approach to disclosure requirements:

- **No substitute for sound accounting.** No matter how extensive, voluminous and well-intentioned, disclosures are not a good substitute for good accounting principles. Increasingly, to provide flexibility in scheduling projects, the FASB appears to be using added disclosure requirements as bridges to better accounting that has not yet been agreed-upon with the IASB. In effect, the establishment of disclosure requirements on an ad hoc project-by-project basis becomes a temporary measure when time is too tight to promulgate significant accounting changes and allow companies sufficient time to transition to sounder practices. This approach is suboptimal because the disclosures become a compromise solution and the series of short-term fixes adds up to more changes than necessary.
- **No sunset process.** If disclosure requirements must be established on a piecemeal basis, this process would best be accompanied by a sunset process for reevaluating disclosure requirements periodically and removing the ones that may have been rendered unnecessary by subsequent changes in accounting requirements of related standards. Currently, the FASB doesn't have a process of this nature, and a full review of all disclosures could be a daunting task. But there is a common theme underlying many of the

disclosure requirements added in 2008, (i.e., the need for improved transparency of risks and uncertainties). Perhaps this aspect of disclosures could be singled out for special review similar to the way the FASB reviewed all references to fair value measures in connection with the issuance of FASB Statement No. 157. The goal would be to simplify the literature and combine individual requirements into general requirements, wherever possible.

- **No 21<sup>st</sup> century disclosure initiative.**

Without a periodic review of the FASB's disclosure requirements, the US may fall behind in the move toward interactive data described in the SEC staff's report on "Toward Greater Transparency." Prepared as part of the SEC's 21<sup>st</sup> Century Disclosure Initiative, the report describes SEC survey results showing that many readers already find US disclosure documents too long and wordy, with the result that they prefer to get their information another way, (e.g. through a broker or financial analyst). The report recommends that the Commission consider changes to its disclosure requirements to better adapt them to interactive data and to support what they call a "company file" (data warehouse) approach to disclosure. A key question to be asked for each disclosure requirement: Can the requirement be written in a way that would improve the standardization of the disclosure so that it facilitates data tagging, while still serving its intended purpose?

Given the integration of US GAAP into the SEC's interactive data rules and the lessons learned from the financial and economic crises of 2008, we think the FASB should also consider its own comprehensive disclosure initiative and make this a priority for 2009.

## For more information

If you should have any questions about this advisory, please contact one of the following individuals.

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**Table 1:**

Highlights of Added Disclosure Requirements		
<ul style="list-style-type: none"> <li> <p><b>VIEs and securitizations.</b> In mid-December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." This FSP increases the disclosure requirements for public companies.</p> <p>The full list of requirements is extensive. Among other things, companies must now provide descriptions and explanations about the assumptions used and judgments made in deciding whether to consolidate a variable interest entity (VIE), as well as the nature of any risks associated with the company's involvement in VIEs, including information about events or circumstances that could expose a company to a loss and how the company calculates its maximum exposure to such losses.</p> <p><b>Effective date:</b> These requirements are effective for reporting periods (interim and annual) that end after December 15, 2008, (i.e., calendar-year 2008).</p> </li> </ul>	<ul style="list-style-type: none"> <li> <p><b>Credit derivatives and guarantees.</b> In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees."</p> <p>To improve transparency in this area, the FSP adds disclosure requirements for sellers of credit derivatives, and it requires an additional disclosure about the current status of the payment and performance risk of a guarantee.</p> <p>The specific requirements include:</p> <ol style="list-style-type: none"> <li>An indication of the current status of the payment and performance risk associated with credit derivatives and guarantees.</li> <li>Descriptions and explanations of events and circumstances that will trigger payments by sellers of derivatives in accordance with contractual requirements.</li> <li>Information about the maximum amount of potential future payments, the fair values of the instruments, and any related recourse or collateral provisions that would allow sellers to recover amounts previously paid in connection with credit derivatives.</li> </ol> <p><b>Effective date:</b> These requirements are effective for interim or annual periods beginning after November 15, 2008.</p> </li> </ul>	<ul style="list-style-type: none"> <li> <p><b>Postretirement benefit plan assets.</b> On December 30, 2008, the FASB released FSP FAS 132-1, "Employers' Disclosures about Postretirement Benefit Plan Assets."</p> <p>The added disclosures include the following:</p> <ol style="list-style-type: none"> <li>Information about how investment allocation decisions are made, including factors that provide an understanding of investment policies and strategies.</li> <li>Information about asset categories, including significant concentrations of risk within plan assets.</li> <li>Information about the fair value measurements of plan assets, including their levels within the fair value hierarchy and the effect of fair value measurements using significant unobservable inputs (level 3 measures) on changes in plan assets for the period (that is, a roll forward of level 3 assets).</li> </ol> <p><b>Effective date:</b> The disclosures required by this FSP do not take effect until fiscal years ending after December 15, 2009, (i.e., calendar year 2009). But they will take time to prepare for the companies that are affected by them.</p> </li> </ul>

**Table 1:  
(continued)**

Highlights of Added Disclosure Requirements		
<ul style="list-style-type: none"> <li>• <b>Disclosures about derivatives.</b> In March 2008, the FASB issued Statement 161, <i>Disclosures about Derivative Instruments and Hedging Activities</i>.<sup>*</sup> <p>Some of the more significant requirements include:</p> <p>a) Additional information about the qualitative disclosures, (i.e., the objectives for holding or issuing derivatives, the context needed to understand those objectives, and the strategies employed to achieve the objectives).</p> <p>These disclosures now should be distinguished by each instrument's primary underlying risk exposure, (e.g. foreign exchange rate, interest rate, credit, interest rate and foreign exchange rate, or overall price).</p> <p>In addition, derivatives not designated as hedges under Statement 133 should be broken out between those used for risk management purposes and those used for other purposes.</p> <p>Finally, an entity should disclose information about the volume of its derivatives activity.</p> <p>b) A table showing the location and fair value amounts of derivative instruments reported in the balance sheet.</p> </li> </ul>	<p>The fair value amounts should be separately disclosed for derivatives that qualify as hedges under Statement 133 and those that do not, and within each of those two broad categories further segregated by type of contract (e.g., foreign exchange contracts, interest rate contracts, equity contracts, commodity contracts, or credit contracts).</p> <p>c) A table showing the location and amount of gains and losses reported in the income statement (including other comprehensive income, or OCI).</p> <p>Gains and losses should be presented separately for derivatives that qualify as fair value hedges and the related hedged items, that qualify as cash flow and net investment hedges, and that do not qualify for hedge accounting.</p> <p>The gains and losses on qualifying cash flow and net investment hedges should be further divided into the effective portion of gains and losses that is recorded in OCI, the amount reclassified from accumulated OCI to income, the amount of ineffectiveness, and the amount excluded from the assessment of effectiveness.</p>	<p>This information about gains and losses should be further segregated by type of contract, like the balance sheet amounts in part b).</p> <p>d) An explanation of the existence and nature of any contingent contractual features related to credit risk, including the circumstances in which those features could be triggered in derivative instruments that are in a net liability position at the end of the reporting period, and the fair value of those instruments. The amount of collateral already posted at the end of the reporting period and the additional amounts that would need to be posted as collateral or that would be necessary to settle the instruments, if the contingent features had been triggered at the end of the reporting period.</p> <p>In addition, Statement 161 amends FASB Statement No. 107, <i>Disclosure about Fair Value of Financial Instruments</i>, to make it explicit that the disclosures of concentrations of credit risk should include derivative instruments.</p> <p><b>Effective date:</b> These disclosures are extensive and are required for interim or annual periods beginning after November 15, 2008.</p>
<p><sup>*</sup> Statement 161 has the same scope as Statement 133. Accordingly, all references to derivative instruments above also would apply to non-derivative (or cash) hedging instruments, such as foreign-currency denominated debt and firm commitments.</p>		

**Table 2**

**Other Areas Targeted for Greater Transparency**

<ul style="list-style-type: none"> <li>• <b>Loss contingencies.</b> In June 2008, the FASB issued a Proposed Statement on “Disclosures of Certain Loss Contingencies.”  If adopted as proposed, the disclosure requirements would apply to asserted claims or assessments (or those for which it is probable that a claim will be asserted) and for which the likelihood of loss is considered more than remote. The disclosures would include:             <ol style="list-style-type: none"> <li>a) The amounts of any claims or assessments against the company, or an estimate of the maximum exposure to loss if there is no claim or assessment amount. Companies would no longer be able to rely on the current exemption for amounts that cannot be reasonably estimated, but they could provide an estimate of a range of losses if the claims or maximum exposure are not believed to be representative of actual payouts.</li> <li>b) Descriptions and explanations of the contingency, how it arose, its current status, the expected date of resolution, the factors likely to affect the outcome and the potential effects of the factors on the outcome.</li> <li>c) The most likely outcome and the significant assumptions made in determining amounts disclosed.</li> </ol> <p>These disclosures are being reconsidered and a revised proposal is expected in 2009.</p> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Financial Instruments.</b> In January 2009, the FASB issued Proposed FSP FAS 107-b and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.”  If adopted as proposed, this FSP would amend FASB Statement No. 107, <i>Disclosures about Fair Value of Financial Instruments</i>, and APB Opinion No. 28, <i>Interim Financial Reporting</i>, to require:             <ol style="list-style-type: none"> <li>a) Disclosures about fair value of financial instruments in interim financial statements as well as annual financial statements.</li> <li>b) Information about significant assumptions used to estimate the fair value of financial instruments.</li> </ol> <p><b>Effective date:</b> The proposed effective date is for annual and interim periods ending after March 15, 2009.</p> </li> </ul>	<p><b>Other areas</b></p> <ul style="list-style-type: none"> <li>• <b>Fair values.</b> In February 2009, the FASB announced four new projects to improve measurement and disclosure of fair value estimates:             <ol style="list-style-type: none"> <li>a) Determining when a market for an asset or a liability is active or inactive.</li> <li>b) Determining when a transaction is distressed.</li> <li>c) Applying fair value to interests in alternative investments, such as hedge funds and private equity funds.</li> <li>d) Improving disclosures about fair value measurements.</li> </ol> <p>The FASB’s expectation is that the first three projects will be completed in second quarter and the fourth will be completed in time for year-end financial reporting.</p> <li>• <b>Uncertainty in income taxes.</b> In late December 2008, the FASB released FSP FIN 48-3, “Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises.” This FSP indicates that a private company or not-for-profit organization that elects to take the deferral should disclose this fact, along with its existing accounting policy for evaluating uncertain tax positions.</li> <li>• <b>Loan loss reserves.</b> The FASB has announced that it plans to address disclosures related to the allowance for loan losses for receivables.</li> </li></ul>
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