

Proposed FSP FAS 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*

Summary of Decisions Reached

10.10.08

The Board discussed the comments received on proposed FSP FAS 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*, which would clarify the application of FASB Statement No. 157, *Fair Value Measurements*. The Board affirmed its decision to limit the scope of the FSP to financial assets. The Board also affirmed that the final FSP will be effective upon issuance. Prior periods for financial statements that have not been issued would comply with the guidance in the final FSP.

Based on the comments received, the Board also decided to make the following clarifications to the FSP:

- a. Clarify that when distinguishing between an active market and an inactive market, practitioners should (1) look to the market for a particular asset or class of assets being measured rather than the overall market and (2) consider the factors that characterize an inactive market, such as a decline in the volume and level of activity, prices that are not current, and prices that vary substantially
- b. Include a discussion about disorderly markets and the distinction between distressed markets and distressed transactions
- c. Emphasize that significant judgment is needed when determining if a particular transaction is an indicator of fair value
- d. Clarify that the use of contractual cash flows using the discount rate adjustment valuation technique in the example would not change the application of EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," when determining whether a particular instrument is subject to other-than-temporary impairment.

The Board directed the staff to proceed with a draft of a final FSP for vote by written ballot.