



FASB Relaxes Rules on Mark-to-Market Accounting

Thanks to the persistent efforts of CBAI, ICBA, and community banks across America, the Financial Accounting Standards Board (FASB) has reluctantly approved changes to accounting rules on other-than-temporary impairments (OTTI) and fair-value measurements. Several key members of Congress have urged FASB for months to make these changes.

Regarding OTTI, FASB is replacing the requirement that bank management declare that it has both the intent and ability to hold an impaired security long enough for an anticipated recovery in fair value to occur. Instead, bank management will be able to assert that it does not have the intent to sell the security and will likely not sell the security before recovery of its cost basis. FASB agreed to drop the presumption in mark-to-market accounting that all transactions in an inactive market are distressed unless proven otherwise.

FASB also agreed that only the credit component of an OTTI of a debt security be recognized in earnings and the remaining portion be recorded in other comprehensive income. Non-credit losses on held-to-maturity debt securities will be recognized in comprehensive income and the amount amortized over the remaining life prospectively. FASB limited the changes to the treatment of debt securities, although FASB may address equity impairments and allowing recoveries of OTTIs in the future.

While the new standard takes effect for earnings reports filed at the end of June, FASB said banks can apply it to their first quarter financial statements. FASB did reject our request to apply the fair-value change to year-end financial statements for 2008.

CBAI thanks all community bankers who submitted comments to the Illinois Congressional delegation and FASB directly. Your advocacy efforts have paid off.