Applying GAAP and GAAS

PART II GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)
CHAPTER 21A Fair Value Measurement, Reporting and Disclosure; and Impairment of Securities

2-21A Applying GAAP and GAAS § 21A.11

§ 21A.11 Impairment of Securities

The FASB requires that reporting enterprises determine whether a decline in fair value below amortized cost is ''other than temporary'' for individual securities classified as either available-for-sale or held-to-maturity. Amortized cost includes adjustments to the cost basis for amortization, hedging, previous other-than-temporary impairment write-downs, and accretion. Assessments of impairment should be made as of each reporting date at the individual security level based on aggregation methods used to measure realized and unrealized gains and losses on securities. Entities should not aggregate debt security, guarantee, or other credit enhancement contracts to determine impairment. A security that was unimpaired at acquisition is considered to have an impairment that is other-than-temporary if it is probable that the investor will not collect all amounts due according to the contractual terms of the debt instrument.

Determination of what constitutes an impairment that is ''other-than-temporary'' is not necessarily a simple matter. Determinations regarding market value and determination of whether an impairment is ''other than temporary'' often involves a complicated review of a variety of subjective and objective factors. Such factors include a determination as to whether the decline in value is related to conditions in an industry or geographic area, if the decline has lasted for a long period of time, or whether the fair value of the investment is materially below cost. In certain cases where the security in question is privately held, assessments of market value are considerably more complicated in the absence of a market price. It is important to note that in reviewing treatment of items in compliance with GAAP courts grant some flexibility in making accounting determinations. The courts do not view GAAP as a fixed, rigid set of rules but rather consider that GAAP offers a range of reasonable alternatives that management may use in presenting accounting information. When items fall into a grey area, such as determinations regarding ''other than temporary'' impairments, the courts consider that accountants have some discretion in making such determinations. In addition, where management's presentation is supported by determinations from outside auditors or where valuation experts may disagree the courts are unlikely to revisit management's presentation.

For securities in the available-for-sale or held-to-maturity categories, reporting enterprises must determine if a decline in fair value below the amortized cost basis is other than temporary. The meaning of ''other-than-temporary'' impairment shall be determined by applying the guidance in FSB FAS 115-1 and FAS 124-1, *Recognition and Presentation of Other-Than-Temporary Impairments-Than-Temporary Impairments.* Reporting entities should apply this guidance to determine if the decline in fair value is other-than-temporary and how the other-than-temporary impairment should be recognized. The guidance of FSB FAS 115-1 and FAS 124-1 is effective for interim and annual periods ending after June 15, 2009. Early adoption for periods ending after March 15, 2009 is permitted. However, early adoption for periods ending prior to March 15, 2009 is not permitted.

If a reporting entity determines that an impairment has occurred that is other-than-temporary, the amortized cost basis shall be written down by the amount of the any other-than-temporary impairment recognized in earnings. The new amortized cost basis shall not be changed for subsequent recoveries in fair value.