

CAQ Alert #2008-66 – October 15, 2008

DEAR CENTER MEMBERS

SEC Expresses Views Regarding Assessment of Declines in Fair Value for Perpetual Preferred Securities Under Existing OTTI Model

On October 14, 2008, Conrad Hewitt, Chief Accountant of the Securities and Exchange Commission's Office of the Chief Accountant (OCA), issued a [letter](#) to Robert H. Herz, Chairman of the Financial Accounting Standards Board (FASB), indicating that they have received a number of inquiries on how to assess declines in fair value for perpetual preferred securities (PPS) under the existing other-than-temporary impairment (OTTI) model in [Statement of Financial Accounting Standards No. 115](#), *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115).

In the letter, OCA states that, after consultation with and concurrence of the FASB staff, it has concluded that it would not object to an issuer for impairment tests **in filings subsequent to the date of the letter** applying an impairment model (including an anticipated recovery period) similar to a debt security provided there has been no evidence of a deterioration in credit of the issuer (for example, a decline in the cash flows from holding the investment or a downgrade of the rating of the security below investment grade) until this matter can be addressed further by the FASB. OCA also provides its expectation around appropriate disclosures.

OCA indicated that their views expressed in the letter represent an intermediate step in addressing the practice issues that exist in the application of the OTTI model to PPS. Concurrent with OCA's issuance of the letter, it has requested the FASB to expeditiously address issues that have arisen in the application of the OTTI model in SFAS 115.

To view the complete text to the [letter](#), please click [here](#).

Other Related Resources for Auditors:

[CAQ Alert #2008-65](#) FASB Issues Final Guidance on Measuring Fair Value of Financial Assets in Inactive Markets, October 14, 2008

[CAQ Alert #2008-63](#) SEC Commences Work on a Study of Fair Value Mandated by Congress, October 8, 2008

[CAQ Alert #2008-62](#) IASB Responds to Credit Crisis and FAF Responds to Suggestions that Congress Suspend Fair Value Accounting, October 6, 2008

CAQ Alert #2008-61	FASB Issues Fair Value Guidance to Be Used in a Market that's Not Active for Public Comment, October 6, 2008
CAQ Alert #2008-58	SEC and FASB Issue Clarifications on Fair Value Accounting, October 1, 2008
CAQ Alert #2008-55	CAQ Comments on Accounting Issues Related to Other-Than-Temporary Impairment of Investment Securities in Response to Issues Raised by the American Bankers Association, September 18, 2008
CAQ Alert #2008-53	SEC Issues Addendum to the SFAS 157 MD&A Letter Issued in March 2008, September 17, 2008
CAQ Alert #2008-18	SEC Issues Letter to Public Companies on MD&A Disclosure Regarding the Application of SFAS 157 (Fair Value Measurements), March 31, 2008
CAQ Alert #2007-64	PCAOB Issues Staff Audit Practice Alert on Auditing Fair Value, December 14, 2007
CAQ Alert #2007-51	CAQ Issues White Papers on Illiquidity in the Markets, October 3, 2007

[Back to top](#)

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