

Financial Services

Captive Accounting & Auditing Update — US GAAP Developments

Bermuda



2009 FASB Updates to Guidance on Fair Value Measurements

August 25, 2009

Alert 09-07

Fair Value Measurements

On April 9, 2009, the FASB released FSP 157-4, Determining Fair Value When the Volume and Level of Activity for an Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Under the FASB Accounting Standards Codification this guidance can now be found in Codification Topic 820 – Fair Value Measurements.

Purpose of the Standard

This release provides additional guidance for estimating fair values when the level of activity for an asset or liability has significantly decreased. The emphasis of this guidance remains the same in that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

Implications of the Standard

This guidance applies to all assets and liabilities subject to accounting pronouncements that require or permit fair value measurements. This guidance details factors an entity should consider when determining if there has been a significant decrease in the volume and level of activity of an asset or liability when determining fair value. This update also provides further guidance on determining whether a transaction is orderly i.e. that is not a forced liquidation or distressed sale. It is important to note that just because there has been a significant decrease in the volume and level of activity for an asset or liability, it is not appropriate to conclude that all transactions are not orderly.

Updated disclosure requirements require that interim and annual periods disclose inputs and valuation techniques related to fair value and requires a discussion of any changes to those valuation techniques in the current period. Disclosure of major security types based on the nature of risks of the securities should be separately disclosed. The guidance provides factors to consider for particular security types when performing this classification including geographic concentration, credit quality, economic characteristics and business sector.

Effective date

- The updated guidance on fair value measurements is effective for all periods ending after June 15, 2009, with early adoption for permitted for period ending after March 15, 2009.

Key factors affecting financial statements

- Disclosures – Increased disclosures about major security types and inputs and valuation techniques used to measure fair value.
- Fair Value Guidance - Further direction is provided on measuring fair value when the volume of transactions or activity level has significantly decreased. Guidance is also provided on determining whether a transaction is orderly when it has been determined that volume and activity level has significantly decreased.

Financial Services

Captive Accounting & Auditing Update — US GAAP Developments

Bermuda



Captive Concept

The key changes noted above will impact captive insurance companies reporting under US GAAP that hold debt and equity securities. Management will have to consider the inputs used to value impairment on debt securities and the disclosures made in the financial statements in respect of these. Management will also need to assess OTTI on debt and equity securities in light of the updated guidance. If an entity has included OTTI on a debt security in the statement of earnings in prior periods, management will need to assess the credit and non-credit portions of this OTTI and reclassify the non-credit portion to accumulated other comprehensive income.

For additional information, please contact any of the following individuals or your usual contact at PricewaterhouseCoopers:

Richard Patching | phone: (441) 299 7131 | email: richard.patching@bm.pwc.com

David Gibbons | phone: (441) 299 7191 | email: david.gibbons@bm.pwc.com

Belaid Jheengoor | phone: (441) 299 7190 | email: belaid.jheengoor@bm.pwc.com

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

© 2009 PricewaterhouseCoopers. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member Firms of the network, each of which is a separate and independent legal entity.