



Insurance Investment Management

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## FASB Proposes New OTTI Guidance on Structured Securities

Last week, FASB exposed the proposed FSP EITF 99-20-a, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20*. The FSP makes the following amendments and clarifications:

- Clarifies that securities that have been downgraded since purchase from a rating of 'AA' or higher to a rating below 'AA' are not within the scope of EITF 99-20. Rather, FAS 115 applies for OTTI guidance.
- Specifies that securities within the scope of EITF 99-20 that have had an adverse change in cash flows since purchase shall be considered for other-than-temporary impairment analysis proscribed in FAS 115. Previously under EITF 99-20, securities within its scope were automatically considered other-than-temporarily impaired if there was an adverse change in the security's projected cash flows, even if the security did not otherwise meet the OTTI criteria noted in FAS 115.
- Specifies that the cash flow projections used in an EITF 99-20 analysis should represent the investors best estimate of the amount and timing of principal and interest payments. Previously, the cash flow projections were to represent what a market participant would use to determine the fair value of the related security. A disconnect between the two streams of cash flows could occur if for example a worst case cash flow scenario was used to determine a security's fair value.

The FASB is accepting comments on this FSP until December 30, 2008. It is expected to become effective for interim and annual reporting periods ending after December 15, 2008.

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