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Understanding the New Fair Value Accounting: FAS 157/159

How to Profit From the New Valuation Requirements

*GAAP is Undergoing Significant, Comprehensive Changes
Don't Let Your Professional Skills and Knowledge Become Obsolete!*

A critical two-day update for financial professionals focusing on:

- Definitions, Scope, Context and Implementation of FAS 157
- How to Use FAS 159 – “The Fair Value Option” – to Benefit Your Firm
- The New GAAP Definition of Fair Value – It's NOT Market Value
- Valuation Methodologies, Techniques and Tools – What to Use, When to Use It
- How FAS 157 Changes Over 50 Previous GAAP Pronouncements
- Implementation Dates – Lessons Learned from Early Adopters – Avoiding Pitfalls
- Modeling Components, Techniques and Controls for Fair Value Accounting
- Mark-to-Model Accounting and Probabilistic Forecasting
- How (and Who) to Validate or Audit the Model's Components – An Audit Guide
- The Bear Stearns Meltdown – Understanding What Went Wrong – Case Study
- FAS 133, Derivatives, Risk Management Techniques and Hedge Accounting
- FAS 141 (R) – New Accounting for M&A and Business Combinations
- New GAAP Disclosure Requirements for Both Financials and Footnotes
- Today's Mixed Attribute Model, Future Directions and IFRS Convergence

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Understanding the New Fair Value Accounting: FAS 157/159

How to Profit From the New Valuation Requirements

**GAAP is Undergoing Significant, Comprehensive Changes
Don't Let Your Professional Skills and Knowledge Become Obsolete!**

In response to Enron and other financial reporting debacles, GAAP is undergoing its most significant transformation in over half a century. The FASB, along with the IASB, is pushing the profession from historical cost basis accounting to fair value (FAS 157/159) accounting. The financial practitioner who does not get in on the ground floor will find their professional skills atrophied and their financial knowledge obsolete.

We'll get you up to speed fast. First, we will start by summarizing the key FAS 157 changes for you and by clearly explaining the prior vs. new, current practice. We will also discuss each APB and FASB pronouncement that's been amended by FAS 157.

You'll study a "can't-miss" flowchart and detailed framework to implement FAS 157. You will clearly understand what items fall under the scope of FAS 157 and what items are excluded.

You'll learn the new definition of fair value and how to navigate the three levels of the fair value hierarchy. You will examine four valuation techniques and learn which to use in different fair value situations. You'll get a total explanation of how to comply with the new GAAP disclosure requirements for fair value accounting.

You'll learn when to use the Fair Value Option election (FAS 159) and how to make the Fair Value Option (FVO) work for you. You'll understand the advantages, impact on net income, adoption strategies and SEC enforcement areas related to FAS 159.

You will understand mark-to-model accounting concepts and how fair value model reliance impacts the FVO. You will learn the implementation steps for fair value modeling, how to handle uncertainty, disclosure requirements and typical pitfalls of fair value modeling.

You will learn how to validate (audit) each component of the fair value model. You will learn how to examine the model's foundation and architecture, how to test inputs and outputs, what controls should exist and how to assess those controls. You'll also review technology tools available to help you comply with the FAS 157 requirements.

You will examine FAS 133 and understand how to account for derivatives. You'll learn how to account for, value, and implement strategic applications for risk management including caps, collars, floors, futures, forwards, interest rate swaps, hedges and more.

You'll study the new FAS 141-R and learn the most advantageous way to structure an M&A transaction. For business combinations, you will learn how best to assign fair value to identifiable assets vs. goodwill and other intangibles covered in FAS 142 and 144, and how the transaction impacts EPS.

You will conclude two days of practical, interactive training with an examination of the mixed attribute model now in use and future plans for FVO for real estate and other non-financial items. GAAP is rapidly changing in a very significant manner. Attend this critical workshop and obtain on-the-job training designed to keep your skills and knowledge current.

Class sizes are limited! Call us today at **800-635-9615**
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40 Key Benefits of Attending

- Understand FAS 157 – Fair Value Measurements – and how it affects financial reporting
- Learn how to use FAS 159 — the “Fair Value Option” – to your firm’s advantage
- Understand how the new fair value rules affect over 50 existing accounting and disclosure practices
- Review FAS 157 Appendix D – all APB and FASB pronouncements amended by FAS 157: prior vs. current practice
- Understand the scope of FAS 157: what must be included or excluded
- “Operationalize” Fair Value Accounting: eight critical issues
- Examine a “can’t-miss” flowchart and a detailed framework for FAS 157
- Explore the evolution of fair value from its beginnings to its current place in financial reporting
- Learn the new and expanded disclosure requirements for both financial statements and footnotes
- Learn the valuation difference between “in-use” and “in-exchange”
- Understand how and why fair value applies to most liabilities
- Examine the difference between highest and best use vs. defensive value vs. stand alone vs. combinations
- Learn why the same asset can have several different fair values
- Examine the new fair value hierarchy and the best ways to measure inputs that help establish value
- Understand FAS 141R - profit from the new accounting requirements for M&A transactions
- Understand the insights and pitfalls early adopters experienced
- Learn about FAS 133 – Accounting for Derivatives – understand strategic risk management techniques
- Use and account for risk management instruments including futures and forwards, caps, collars, floors, interest rate swaps, stock options, and more!
- Understand fair value model architecture and technique and embed controls to assure model validity
- Use mark-to-model accounting
- Test your model’s control environment: master model inventory and tests
- Model the Economic Value of Equity (EVE), Net Interest Income (NII), and Liquidity
- Understand the relationship between the fair value option and model reliance
- Learn how to model for uncertainty, credit risk and typical pitfalls
- Audit your model’s foundation, inputs, assumptions, estimates, outputs and reports – is it valid?
- Calibrate the pricing model to the transaction price
- Learn how to use fair value techniques for FAS 157: when to use cost, market, income or Black Scholes
- Examine FAS 159 including the objectives of the Fair Value Option (FVO) and the impact it can have on earnings
- Use the new fair value rules to enhance EPS
- Understand loss recognition options for liquidation of impaired assets
- Learn how to use the FVO – required documentation, disclosure and prohibited instruments
- Develop FVO adoption practices for equity method investments
- Examine FVO portfolio enhancement strategies
- Learn how to use the FVO to bypass the P&L and take certain losses directly to Retained Earnings
- Discuss audit considerations related to the FVO
- Learn how effective corporate governance impacts fair value accounting
- Study technology tools that help with implementation and model validation
- Learn about sub-prime securitization markets, tranches, ratings, risk adjustment, liquidity risk, valuation of mortgage loans and the Bear Stearns meltdown
- Understand the current mixed attribute model now in use and future directions
- Understand how the FVO will be used for real estate and non-financial items

Comprehensive Seminar Agenda

Summary of Key FAS 157 Fair Value Changes

<u>Item</u>	<u>Prior</u>	<u>Now</u>
Fair Value	Entry Price	Exit Price
Assumptions	Entity Specific	Market Based – Consistent
Measurement	Inconsistent	Several Valuation Techniques Recognized!
Day One Gains/Loss	Not Recognized	Established standards
Disclosures	Limited	

FAS 157 - Prior v. Current Practice

- Investments and Long Term Debt
- Derivative Assets and Liabilities
- Business Combinations, Goodwill and Intangible Assets
- Long-Lived Assets Held and Used
- Asset Retirement Obligations

Review of FAS 157 Appendix D – All APB and FASB Fair Value Pronouncements Amended by FAS 157

Recent Fair Value Related Items

- FAS 155: Accounting for Hybrids
- FAS 156: Accounting for Servicing of Financial Assets
- FAS 157: Fair Value Accounting
- FAS 159: The Fair Value Option
- FASB Valuation Resource Group Formed
- FAS 141(R) – New Accounting for Business Combinations
- Phase 2 of the Fair Value Option
- Convergence with IFRS
- Reasons FAS 157 is Necessary
- Effective Implementation Dates
- Lessons Learned from Early Adopters

Framework/Flowchart for FAS 157

- Determine Unit of Account
- Determine Potential and Appropriate Markets for Basis of Valuation
- Apply the Appropriate Valuation Techniques: Market, Income or Cost
- Determine and Disclose Fair Value

“Operationalizing” Fair Value

- Fair Value Methodology – Design, Documentation and Approval
- Eight Critical Implementation Issues
- Essential Disclosure Requirements
- Typical Valuation Models and Tools
- Identifying Data Sources – Observable and Other
- Valuation Process – Integration with Financial Statement Preparation

The Scope of FAS 157

- In Scope - Financial
 - Investment Securities – FAS 115
 - Derivatives – FAS 133
 - Security Short Sales and More
- In Scope – Non Financial
 - Assets and Liabilities Measured at Fair Value Under FAS 141
 - Impairment Test – FAS 142 and 144
- Items Not In Scope
- FASB Staff Positions for FAS 157
 - FSP FAS 157-b
 - Non-recurring Measurements for Business Combinations

- Intangibles, Impairment Measurement and FAS 142
- Asset Retirement Obligations – FAS 143
- Liabilities for Exit/Disposal – FAS 146
 - FSP FAS 157-c
 - How to Measure Liabilities
 - Substitutes to Measure Liabilities

Navigating the Fair Value Hierarchy

- Purpose of the Three-Level Hierarchy
 - Prioritizing Inputs for Valuation
 - Maximize Observable Market Data
 - Classification for Disclosure
- Observable vs. Unobservable Inputs
 - Level 1: Active market
 - Level 2: Observable, Derived or Corroborated
 - Level 3: Unobservable, Entity Specific – Exit Price Per Seller

New Definition of Fair Value

- Assets, Liabilities, Sale, Transfer, Risk, Use and Market Participants
- Market Identification, Principle Markets and Transaction Costs
- Highest and Best Use vs. Defensive Value, Stand Alone and Combinations
- Unit of Account vs. Unit of Valuation
 - Portfolio Level Adjustments
 - Disclosure Implications

Valuation Techniques

- Market and Cost Approach
- Income Approach Using Black-Scholes
- Consistency and FAS 154
- Other Guidance: Block Discounts, Restricted Assets, Bid & Ask Prices

New Disclosure Requirements

- Relationship to Three-level Hierarchy
- Recurring vs. Non-recurring Examples
- Required Qualitative Information

FAS 133: Understanding Derivatives

- Basic Characteristics and Risk Management Strategies
 - Futures and Forwards
 - Interest Rate, Stock Options, More!
 - Caps, Collars, Floors and Swaps
- Implementation Issues, Disclosure Requirements Including FAS 161
- Clarification of the Short-cut Method: When, How and Who Can Use It?
- Understanding Embedded Derivatives and Bifurcation
 - Convertible Debt/Preferred Stock
 - Accounting Guidance - EITF 00-19
- Understanding Hedges

Seminar Agenda Continued

FAS 157 Practice Considerations

- Fair Value of Liabilities, Credit Rating and Measurement per FSP FAS 157-c
 - Collateral Guarantees
 - Interest Rates, Credit Spreads, and More!
 - Disclosure Requirements
- Fair Value of Cash Flow Hedge: Unit of Account, Principal Market, Valuation Technique, Accounting Issues
- Calibrating the Pricing Model to the Transaction Price

Hybrid Instruments and Impact on L-T Debt Valuation: FAS 155

Understanding FAS 159 – The Fair Value Option (FVO)

- Fair Value Evolution: 1990 – 2008: FAS 105, 107, 115, 119, 133, 140, 155, 157, 159
- Objectives of the FVO and Impact on Earnings - Advantages
- How To Use the FVO Election
 - Required Documentation
 - Prohibited Instruments
- Instruments Within/Outside of Scope
- Categories of Assets and Liabilities: Level 1, 2 and 3
- Disclosure Requirements – Financial Statements and Footnotes
- Implementation Issues
 - Income Recognition: 3 Methods
 - Liquidation of Impaired Assets – Loss Recognition Options
- SEC Focus
- Adoption Strategies
 - Portfolio Enhancement Strategies
 - Disappearing Losses – Bypass the P&L – Go Directly to Ret. Earnings
 - Audit Considerations
- FVO for Equity Method Investments

Fair Value Modeling

- FVO and Model Reliance
 - Instrument Values in Level 2 and 3
 - “Mark-to-Model” vs. “Mark-to-Market”
- Fair Value Model Implementation Steps
 - Fair Value Methodology
 - Valuation Models and Tools
 - Valuation Process
- Challenges and Issues
 - Modeling Fair Value of Issued Debt
 - Modeling Derivative Fair Values
 - Modeling Uncertainty – Market, Input and Model Uncertainty
- Typical Pitfalls

Model Validation Components – Auditing the Model

- Theoretical Foundation
 - Leading Practice Compliance
 - Examples: Simulation Integrity Tests, Foundation Assessment
- Inputs, Assumptions and Estimates - Examples: Yield Curves, Risk, Historical Volatility and Correlations
- Model Implementation and Calculation

- Testing of Model Outputs
- Back Testing to Results
- Examples: Independent Derivative Valuation, Recalculation of Exposures and Risk Statistics
- Model Outputs and Reports
 - Assessment of Reporting/Usage
 - Examples: Risk/Capital Reports, Potential Exposure Profiles and Statistics
- Model Control Environment
 - Controls, Documentation and Benchmarks
 - Examples: Master Model Inventory and Related Testing
- Who Performs Model Validation: Risk Mgmt. v. Internal Audit
- Sample Model Validation Areas and Success Factors
- Asset/Liability Management
 - Modeling the Economic Value of Equity (EVE)
 - Net Interest Income (NII) Simulations
 - Modeling Liquidity and Funding Sources Mix
 - Hedging with Derivatives
- Market Risk Measurements – VaR, Limit Setting, Stress Testing
- Accounting: FAS 91 – Effective Yield, FAS 133 – Model Testing/Analysis, FIN 46 – Modeling for Consolidation, FAS 155 – Structured Debt Valuation, FAS 157 – Fair Value Modeling
- Measuring Credit Risk
- Effective Controls and Documentation
- Auditing Restricted Proprietary Models

Technology Apps. for FAS 157

- Data Warehouse Including Scenario Analysis and Embedded Rules and Assumptions
- Model Validation – I/O, Assumptions and Calculations
- Exception Identification
- Software Packages – Institutional Reporting and Investor Reporting

Controls – Definition, Objective and Assessment

- Level 1 and Level 2 Controls
- Level 3: Model Validation and Key Requirements
- Common Model Valuation Issues
- Controls Assessment Approach

Understanding the Bear Stearns Meltdown

- FAS 157 Issues for Subprime Securitization Markets, QSPE, Tranches and Superior Senior Debt
- Key Price Considerations, Ratings, Liquidity and Risk Adjustments
- Valuation of Mortgage Loans

Conclusion: Reliability vs. Relevance

- Mixed Attribute Model and Future Plans
- FVO for Real Estate and Non-Financial Items

NCCE's Expert Seminar Leader

Frank J. Beil, CPA

Frank is an Adjunct Professor at a major mid-western university. He has been the recipient of Teacher of the Year awards from the Department of Accounting and has served as a consultant for the FASB. Frank has served as the CFO of a Publisher/Bookstore operation. He earned his Masters in Accounting from the University of North Dakota. Frank has co-authored two accounting books for BNA and is writing a book on Business Combinations. He has been extensively involved with valuation issues regarding financial assets, liabilities and fair value measurements under FAS 141, as well as issues regarding impairment of assets under FAS 144 and Fair Value issues to determine goodwill impairment under FAS 142. Frank leads Fair Value seminars for several continuing education organizations.

Course Level: Basic

Prerequisites: Basic knowledge of GAAP and financial statements

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Special Bonus!

Your tuition fee includes a comprehensive workbook that will serve as a valuable reference tool after you have completed the course. Your workbook offers a wealth of easy-to-follow, point-by-point instructions, checklists, illustrations, hands-on examples, case studies, and other "must-have" working tools to use Understanding the New Fair Value Accounting: FAS 157/159 effectively. This training material will clearly illustrate the concepts covered during the seminar and will help to crystallize your classroom learning—long after the seminar is over.

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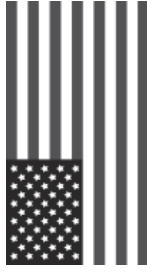
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