

How to Use This Manual

New and emerging accounting and regulatory requirements are affecting the way banks must disclose balances on their financial statements and regulatory reports, as well as record transactions on their books. After a few significant entity failures, where lack of adequate internal control contributed to the failures, the accounting profession has begun to emphasize both internal controls and the transparency of financial reporting. Laws and regulations, as well as the accounting profession itself, are driving many of these new and emerging requirements. Fair value reporting is one method being explored as contributing to the increasing transparency of financial information.

The accounting and regulatory requirements range from disclosing the fair values of items to the recognizing and measuring of transactions at fair value while maintaining the historical cost nature of assets and liabilities. Bank managers need to be aware of both previously issued and newly issued accounting and regulatory requirements for specific balance sheet categories. For this reason, the *Fair Value Reporting by Financial Institutions* has been arranged by balance sheet categories starting with assets and then proceeding through liabilities and equity classifications. Since many transactions impact more than one category, the fair value discussion is presented in the category that is most impacted and noted in other areas that are affected.

Therefore, the manual is divided into chapters following balance sheet classifications that are most common within financial institutions. The first three chapters discuss the various definitions of fair value, the projects to date of the FASB which constitute GAAP, and the regulatory reporting requirements (RAP) which closely follow GAAP. Differences between GAAP and RAP are noted.

To use this manual, review the chapter that is related to the accounting transaction being considered. The chapters are divided by balance sheet classification starting with assets, then proceeding to liabilities and equity. Thus, finding material for a specific transaction should be easy and very quick.

Some balance sheet classifications have not yet been impacted by fair value requirements, such as the cash classification. Presentations for these areas include a summary of GAAP as it now exists, which will be changed as new developments occur and fair value is implemented.

This manual is not intended to be an exhaustive presentation of GAAP for financial institutions, but is intended to focus on those areas where fair value is required and to illustrate how such fair value requirements impact the reporting, measurement, and recognition of accounting transactions for such areas. Provisions have been made for frequent updates to the material so that the manual will serve as a valuable reference tool on how fair value is to be applied within a specific financial institution. References are included within each chapter so that these may be consulted for an expanded discussion for a specific transaction for a specific financial institution.