PROPOSED FASB STAFF POSITION

No. FIN 45-a

Title: Whether FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value

Comment Deadline: October 31, 2003

Q—If a guarantor wishes to report its liability for its obligations under a guarantee (including any recourse obligations of a seller that are included in paragraph 3 of Interpretation 45) on an ongoing basis at fair value, may the guarantor cite Interpretation 45 as support for choosing that accounting method for subsequent measurement?

A—No, Interpretation 45 may not be cited as support in justifying the use of fair value in accounting for the guarantor's liability for its obligations subsequent to the issuance of a guarantee. The Interpretation addresses the measurement of the guarantor's liability only at the inception of the guarantee, that is, its initial measurement upon initial recognition. Paragraph A49 in the basis for conclusions of Interpretation 45 states that the "Board affirmed its decision that providing guidance on the subsequent accounting was beyond the scope of this Interpretation."

Paragraph 12 of Interpretation 45 states:

> This Interpretation does not describe in detail how the guarantor's liability for its obligations under the guarantee would be measured subsequent to its initial recognition. The liability that the guarantor initially recognized under paragraph 9 consistent with the fair value objective discussed in that paragraph would typically be reduced (by a credit to earnings) as the guarantor is released from risk under the guarantee. Depending on the nature of the guarantee, the guarantor's release from risk has typically been recognized over the term of the guarantee (a) only upon either expiration or settlement of the guarantee, (b) by a systematic and rational amortization method, or (c) as the fair value of the guarantee changes (as is done, for example, for guarantees accounted for as derivatives). The discussion in this paragraph about how the guarantor typically reduces the liability that it initially recognized does not encompass the recognition and subsequent adjustment of the contingent liability recognized under Statement 5 related to the contingent loss for the guarantee.

Interpretation 45 was not intended to imply that a guarantor is free to choose any of the three methods cited in paragraph 12 in deciding how the liability for its obligations under the guarantee is measured subsequent to the initial recognition of that liability. Although the three methods are currently being used in practice for subsequent accounting, paragraph 12 deliberately did not provide comprehensive guidance regarding when each of those methods would be appropriate. A guarantor should not use fair value in subsequently accounting for the liability for its obligations under a previously issued guarantee unless the use of that method is supported by other pronouncements or guidance under generally accepted accounting principles, as is the case, for example, for guarantees accounted for as derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

If a guarantor has adopted the use of fair value for the subsequent measurement of its obligations under a guarantee not subject to Statement 133 by relying solely on Interpretation 45, that guarantor should reevaluate the appropriateness of that accounting at the end of the fiscal quarter that includes the date that the final FSP is posted to the FASB website. If the continued use of fair value cannot otherwise be justified, the fair value of that liability at the end of that fiscal quarter shall be the carrying amount of that liability for purposes of applying thereafter the guarantor's new subsequent measurement method of accounting for that liability.