Deloitte Financial Advisory Services Online Poll Shows Few Companies Ready for New Rules in Fair Value Measurement

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NEW YORK, May 16, 2007 – Only six percent of companies have assessed how Financial Accounting Standards Board (FASB) new Statement No. 157 (SFAS 157), Fair Value Measurement, will impact the valuation of their assets and liabilities, according to a recent online poll conducted by Deloitte Financial Advisory Services LLP (Deloitte FAS). While companies may be waiting to assess SFAS 157 when it takes effect in a few months, the new standard could be more complicated than it appears at first review, and therefore companies should consider looking at implications early.

The Deloitte FAS poll was conducted during the web cast, "SFAS 157 Fair Value Measurements for Corporate Assets: It's Not Business as Usual." Of approximately 1,500 participants, a majority were senior level managers within finance and accounting departments in the financial services, telecommunications, and manufacturing industries.

SFAS 157 enhances guidance on how to measure assets and liabilities at fair value and consolidates fair value measurement into one accounting standard. SFAS 157 can be applied whenever another accounting standard requires or permits a fair value measurement, such as impaired assets, certain assets and liabilities acquired in a business combination, financial assets and liabilities for which the fair value option is elected. The new standard does not require any new fair value measurements. SFAS 157 also introduces new disclosures intended to highlight the reliability of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for calendar year-end companies.)

"Historically, different definitions and measurement guidelines for fair value led to inconsistency and added to complexity in GAAP," said Stamos Nicholas, leader of Deloitte FAS' Business Valuation practice. "Perhaps one of the biggest changes in the new rule is an outline of how certain intangible assets are valued, something valuation specialists have tried to develop through a patchwork of tax, accounting, and valuation concepts over the years."

SFAS 157 offers enhanced guidelines aimed at valuing hard-to-measure assets and liabilities that includes a new hierarchy consisting of three levels used to classify valued items. The new rule defines fair value and also introduces new concepts such as defensive value.

Approximately half (47 percent) of the participants indicated that the requirement under SFAS 157 to apply exit price vs. entry price when assessing an asset's fair value would have some effect on their company. More than half (57 percent) of the participants reported their companies have yet to assess the impact, or do not know if they have begun to assess the impact of SFAS 157 on their fair value estimates.

"While SFAS 157 aims to provide clearer guidelines for the valuation process, early consideration of its provisions is key. Corporate executives signing off on company financials need to ensure that statements adhere to the new rule, so that both they and their companies are protected," said Greg Forsythe, director, Valuation Services, Deloitte FAS.

Deloitte FAS recommends the following key guidelines for companies:

• While SFAS 157 is not applicable to most companies for several months, start now to assess the provisions of the new standard and the effects on your company's assets and liabilities that are measured at fair value.
• Consider current fair value requirements (e.g., SFAS 142, Goodwill and Other Intangible Assets) that need to be assessed in order to be compliant with SFAS 157.
• On a go-forward basis, consider SFAS 157 implications for business combinations (SFAS 141) or other future fair value requirements.

A minimum of 1,100 web cast participants provided responses to each of the following online poll questions:

• How far along is your company in assessing the impact of Statement 157?
o We have not started assessing the impact (32%)
o We are in the process of assessing the impact (37%)
o We understand how SFAS 157 will impact the valuation of our assets and liabilities (6%)
o N/A, don't know (25%)

• Will the highest and best use requirements (including the defensive value concept) have significant effect on the valuation of assets as your company?
o Yes (19%)
o No (24%)
o N/A, don't know (57%)

• Will the provisions of SFAS 157 result in the increased use of valuation specialists at your company?
o Yes (45%)
o No (19%)
o N/A, don't know (36%)

• Will the requirement to use exit price vs. entry price when assessing an asset's fair value have a significant effect on your company?
o It will have a significant effect (8%)
o It will have some effect (39%)
o It will not have an effect (11%)
o N/A, don't know (42%)

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