

MEMO# 22945

October 1, 2008

SEC and FASB Staff Issue Clarifications on FAS No. 157

[22945]

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TO: ACCOUNTING/TREASURERS MEMBERS No. 23-08
COMPLIANCE MEMBERS No. 50-08
END OF DAY PRICING FORUM No. 3-08
INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 25-08
INVESTMENT COMPANY DIRECTORS No. 18-08
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 30-08
SEC RULES MEMBERS No. 108-08 RE: SEC AND FASB STAFF ISSUE CLARIFICATIONS ON
FAS NO. 157

The SEC's Office of the Chief Accountant together with the FASB staff have issued a series of questions and answers intended to clarify the fair value measurement guidance in FASB Statement No. 157, Fair Value Measurements. [\[1\]](#) According to the SEC, the Q&A is intended to help preparers, auditors, and investors address fair value measurement questions that have been cited as most urgent in the current environment. We understand that the Q&A applies to all companies that prepare GAAP-based financial statements, including investment companies. [\[2\]](#) The Q&A provides guidance on the following issues:

- Can management's internal assumptions (e.g., expected cash flow) be used to measure fair value when relevant market evidence does not exist?
- How should the use of "market" quotes (e.g., broker quotes or information from a pricing service) be considered when assessing the mix of information available to measure fair value?
- Are transactions that are determined to be disorderly representative of fair value? When is a distressed (disorderly) transaction indicative of fair value?
- Can transactions in an inactive market affect fair value measurements?

The Q&A may afford greater reliance on unobservable inputs (level 3) relative to observable

inputs (level 2) where markets are inactive or distressed. In particular, the Q&A indicates that when significant adjustments are required to available observable inputs, it may be more appropriate to use an estimate of fair value based primarily on unobservable inputs. Further, distressed or forced liquidation sales are not determinative when measuring fair value.

The Q&A indicates that the FASB is preparing to propose additional interpretive guidance on fair value measurement later this week. Separately, the Emergency Economic Stabilization Act of 2008 may address the application of fair value accounting. We will keep you informed of further developments.

Gregory M. Smith
Director - Operations/Compliance & Fund Accounting

endnotes

[1] The clarifications are in the form of a press release, which is available on the SEC's website at: <http://www.sec.gov/news/press/2008/2008-234.htm> (the "Q&A").

[2] The final Q&A, addressing "other than temporary impairments" provides guidance to banking organizations that make loans.

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