MEMO# 21336

July 5, 2007

Draft FAS No. 157 Note Disclosures for Investment Companies

[21336]

July 5, 2007

TO: ACCOUNTING/TREASURERS COMMITTEE No. 13-07
INDEPENDENT ACCOUNTANTS ADVISORY GROUP No. 5-07 RE: DRAFT FAS NO. 157 NOTE DISCLOSURES FOR INVESTMENT COMPANIES

Statement of Financial Accounting Standards No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands required note disclosures about fair value measurements. [1] FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. A subgroup of the Accounting/Treasurers Committee has developed draft investment company note disclosures intended to satisfy the requirements of FAS No. 157. The draft note disclosures are attached for your review.

Please provide any comments you may have on the note disclosures to the undersigned at 202/326-5851 or smith@ici.org by Friday, August 17.

For assets that are measured at fair value on a recurring basis, FAS No 157 requires disclosure of the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets:

a. The fair value measurements at the reporting date
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
c. For Level 3 measurements, a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

    1. Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the income statement
    2. Purchases, sales, issuances, and settlements (net)
    3. Transfers in and/or out of Level 3
d. The amount of the total gains or losses for the period in subparagraph c.1. above included in earnings that are attributable to the change in unrealized gains or losses relating to those assets still held at the reporting date and a description of where those unrealized gains or losses are reported in the income statement.
e. In annual periods only, the valuation techniques used to measure fair value and a discussion of changes in valuation techniques, if any, during the period.

Sample Note Disclosures

&Attached are two draft documents intended to facilitate investment company compliance with the note disclosures required by FAS No. 157. The first document is a matrix that is intended to assist funds in determining where securities fall within the fair value hierarchy (i.e., Level 1, Level 2, or Level 3). This document lists various security types and inputs that could be used to value the security. The matrix classifies securities as Level 1, Level 2, or Level 3 based on the inputs used to value the security.

The second document provides sample note disclosures that could be included in financial statements. The sample note disclosures set forth a fact scenario assuming certain holdings, purchases, sales, and changes in value over the period. The sample note disclosure then provides: 1) a description of the fair value hierarchy and how it is applied to the fund's investments; 2) a tabular summary of security types broken down by valuation input level; and 3) a tabular reconciliation of the beginning and ending balances of securities that were valued using Level 3 inputs.

The tabular reconciliation of securities valued using Level 3 inputs includes two alternative presentations for Other Financial Instruments (i.e., futures, forwards, swaps, etc.). The first column is based on unrealized appreciation/depreciation and the second column is based on the notional contract or market value of derivative holdings. The subgroup did not intend to suggest that both approaches should be presented in financial statement note disclosures. Both approaches are included in the sample note disclosures to facilitate consideration of the most meaningful presentation.

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

Attachment

endnotes

[1] See ICI Memorandum to Accounting/Treasurers Members No. 19-06 [20397] dated September 22, 2006.