

**MEMO# 30482**

December 15, 2016

## **FASB Issues Technical Changes to Topics 820 and 946**

[30482] December 15, 2016 TO: ICI Members

Accounting/Treasurers Committee

End Of Day Pricing Forum SUBJECTS: Disclosure

Fund Accounting & Financial Reporting RE: FASB Issues Technical Changes to Topics 820 and 946

The Financial Accounting Standards Board recently released an accounting standards update that makes technical changes to various sections of the accounting standards codification, including Topic 820, *Fair Value Measurement*, and Topic 946, *Investment Companies*.[\[1\]](#) The changes to the accounting standards codification are intended to clarify or correct unintended application of guidance.

### **Topic 820**

The changes to Topic 820 are intended to clarify the difference between a valuation *approach* and a valuation *technique*. Prior to the ASU, these terms were used inconsistently in Topic 820. The ASU explains that three widely used valuation approaches are the market approach, the income approach, and the cost approach. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Matrix pricing is a valuation technique that is consistent with the market approach. Valuation techniques consistent with the income approach may use a risk adjusted discount rate to convert future cash flows to a present value.

The changes to ASC 820-10-50-2 require a reporting entity to disclose, for Level 2 and Level 3 fair value measurements, a change in either or both a valuation approach and a valuation technique and the reason(s) for the change. The changes to this paragraph may result in changes to disclosures, as previously the paragraph could be read to require disclosure of only changes in valuation approaches. The changes to Topic 820 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016.

### **Topic 946**

The changes to Topic 946 are intended to clarify that the requirement to disclose individual investments held by investee funds that exceed five percent of the investor fund's net assets at the reporting date apply to nonregulated investment companies, and do not apply to SEC registered investment companies. The ASU explains that, before the accounting standards codification, the guidance for investments in other investment companies applied only to nonregulated investment companies. Once codified, the wording changed so that it applied to all investment companies. The ICI commented in support of this technical change, arguing that there would be little benefit associated with investor fund disclosure

of investee fund holdings where the investee fund is a public fund, because public funds must disclose their holdings on a quarterly basis.<sup>[2]</sup> The changes to Topic 946 are effective immediately.

Gregory M. Smith  
Senior Director, Fund Accounting and Compliance

#### **endnotes**

<sup>[1]</sup>[FASB ASU No. 2016-19, \*Technical Corrections and Improvements\*](#) (December, 2016) is available on the FASB website.

<sup>[2]</sup> See ICI [Memorandum No. 30026](#) (July 8, 2016).

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