

**MEMO# 28926**

April 27, 2015

## **SEC Staff Issues Valuation Guidance FAQs**

[28926]

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TO:

ACCOUNTING/TREASURERS MEMBERS No. 9-15  
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 10-15  
BROKER/DEALER ADVISORY COMMITTEE No. 15-15  
CHIEF RISK OFFICER COMMITTEE No. 10-15  
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TRANSFER AGENT ADVISORY COMMITTEE No. 17-15

RE:

SEC STAFF ISSUES VALUATION GUIDANCE FAQs

The SEC's Division of Investment Management recently released questions with responses [\[1\]](#) related to the valuation guidance for all mutual funds provided in the 2014 release adopting money market fund reform. [\[2\]](#) The Adopting Release provided guidance regarding the fair value of thinly traded securities, the use of pricing services, and the use of amortized cost valuation. Although discussed primarily in the context of money market funds, this valuation guidance is generally applicable to all registered investment companies and business development companies—not just money market funds. [\[3\]](#)

The staff first addresses a fund board's responsibilities when determining whether an evaluated price provided by a pricing service constitutes a fair value for a fund's portfolio security. The response states that "the guidance provided in the Adopting Release was not

intended to change the general nature of the board's responsibility to oversee the process of determining whether an evaluated price provided by a pricing service, or some other price, constitutes a fair value for a fund's portfolio security or limit a board's ability to appropriately appoint others to assist in its duties." Later, it states that "a fund's board of directors' may delegate to its appointee [e.g., the investment adviser or valuation committee], subject to adequate oversight, specific responsibilities intended to assist it in implementing the fund's valuation policies and procedures, including its due diligence of pricing services... ." The response concludes by stating, "However, as the Commission has said, it is incumbent upon the fund's board to satisfy themselves that all appropriate factors relevant to the fair value of securities for which market quotations are not readily available have been considered and to determine the method for determining the fair value of each such security."

The second question follows up on the Adopting Release's statement that a fund may only use the amortized cost method to value a portfolio security with a remaining maturity of 60 days or less when it can reasonably conclude, at each time it makes a valuation determination, that the amortized cost value is approximately the same as the fair value of the security valued without the use of amortized cost. The response states that funds using amortized cost in this way need not calculate their shadow prices daily, but states the staff's belief that a fund should have policies and procedures in place to allow the fund to reasonably conclude that a portfolio security's amortized cost (when used) is approximately the same as the security's fair value using market-based factors.

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Counsel

#### **endnotes**

[1] The responses represent the views of the SEC staff and are not a rule, regulation, or statement of the Commission. The FAQs are available at [www.sec.gov/divisions/investment/guidance/valuation-guidance-frequently-asked-questions.shtml](http://www.sec.gov/divisions/investment/guidance/valuation-guidance-frequently-asked-questions.shtml). On the same day, the SEC staff released separate FAQs on the 2014 money market fund reforms; those are available at [www.sec.gov/divisions/investment/guidance/2014-money-market-fund-reform-frequently-asked-questions.shtml](http://www.sec.gov/divisions/investment/guidance/2014-money-market-fund-reform-frequently-asked-questions.shtml). Institute Memorandum No. [28924](#), dated April 27, 2015, provides an overview of those FAQs.

[2] Money Market Fund Reform; Amendments to Form PF, SEC Release No. IC-31166 (July 23, 2014) (the "Adopting Release"), at 277-288, available at [www.sec.gov/rules/final/2014/33-9616.pdf](http://www.sec.gov/rules/final/2014/33-9616.pdf).

[3] Adopting Release at n. 873.