

MEMO# 23850

October 6, 2009

Draft ICI Comment Letter on FASB Fair Value Measurement Disclosures Proposal

[23850]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 20-09 RE: DRAFT ICI COMMENT LETTER
ON FASB FAIR VALUE MEASUREMENT DISCLOSURES PROPOSAL

As you know the FASB recently proposed amendments to ASC Topic 820 intended to improve disclosures relating to fair value measurements. [\[1\]](#) The proposed amendments require new disclosures including: 1) the effects of reasonably possible alternative inputs on Level 3 fair value measurements, (sometimes referred to as “sensitivity analysis”); 2) significant transfers in and/or out of Levels 1 and 2 and the reasons for the transfers; and 3) separate (gross) reporting in the Level 3 reconciliation of transfers in and transfers out, and purchases and sales. [\[2\]](#) The new disclosures would be effective for interim and annual reporting periods ending after December 15, 2009, except for the sensitivity analysis, which would be effective for interim and annual periods ending after March 15, 2010.

In the attached draft comment letter the Institute expresses concern that by requiring a range of possible values for Level 3 holdings, the proposed sensitivity analysis may diminish fund investors’ confidence in financial reporting. Further, that the proposed sensitivity analysis will be costly to implement and difficult to audit. The draft letter recommends that the proposed sensitivity analysis be omitted from the accounting standards update, or at the very least, that the Board modify the “significance” threshold so that the sensitivity analysis is required only when the reporting entity has substantial Level 3 holdings.

The attached draft comment letter recommends that the proposed requirement to provide quantitative information on transfers between Levels 1 and 2 and the reasons for the transfers be omitted from the accounting standards update. The letter argues that the proposed disclosures provide little benefit where securities are valued based on observable inputs. The draft letter also describes how the application of fair value adjustment factors to securities trading in foreign markets may cause securities to move back and forth between Levels 1 and 2 during the reporting period and argues that the proposed disclosure may not accurately reflect actual practice.

Comments on the proposed amendments are due to the FASB by October 12. If you have comments on the Institute's draft letter, please contact the undersigned at 202/326-5851 or smith@ici.org.

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

[Attachment](#)

endnotes

[1] See [Memorandum](#) to Accounting/Treasurers Members No. 37-09, dated September 2, 2009 [23754].

[2] The proposed accounting standards update, Improving Disclosures about Fair Value Measurements, an amendment to ASC Topic 820 is available at the FASB website: <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1175801893139>.

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