

**MEMO# 28501**

October 31, 2014

# **FASB Proposal Would Eliminate Fair Value Hierarchy Level Disclosure for Investments in Certain Funds**

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 29-14 RE: FASB PROPOSAL WOULD ELIMINATE FAIR VALUE HIERARCHY LEVEL DISCLOSURE FOR INVESTMENTS IN CERTAIN FUNDS

The FASB recently released an exposure draft of a proposed accounting standards update that would remove the requirement to categorize and disclose within the fair value hierarchy investments in certain funds. [1] Entities that apply the “practical expedient” at ASC 820-10-15-4 to measure the fair value of their investment in funds would no longer be required to disclose the fair value hierarchy level of those investments and related fair value measurement disclosures. Funds eligible for the practical expedient are those that have no readily determinable fair value and are investment companies within the scope of ASC 946 (e.g., hedge funds, private equity funds). The proposal does not affect disclosure requirements relating to investments in mutual funds, which are typically categorized within Level 1 of the fair value hierarchy.

Comments on the exposure draft are due to the FASB by January 15, 2015. If you have any concerns with the exposure draft or otherwise think that the ICI should submit a comment letter, please contact me at [smith@ici.org](mailto:smith@ici.org) or (202) 326-5851 no later than November 21.

## **Diversity in Practice**

Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date (Level 2), never redeemable with the investee at net asset value (Level 3), or redeemable with the investee at net asset value at a future date. If redeemable with the investee at a future date, the investor must take into account the length of time until the investment becomes redeemable to determine the classification (Level 2 or Level 3). The exposure draft indicates it is intended to address diversity in practice regarding classification of investments redeemable at net asset value in the future.

The exposure draft would also eliminate fair value measurement disclosures for investments in those funds. An entity that applies the practical expedient would no longer be required to provide the fair value measurement disclosures required by ASC 820-10-50-2 (e.g., Level 3 gains/losses, Level 3 roll-forward) for those investments.

A reporting entity that applies the practical expedient to measure its investment in funds would continue to be subject to the disclosures required by ASC 820-10-50-6A (e.g., the fair value measurement of the investments in the class at the reporting date, any unfunded commitments relating to the class of investments, the terms and conditions upon which the investor may redeem investments in the class, etc.).

The exposure draft indicates that the intent of the fair value hierarchy is to help financial statement users assess the relative subjectivity of the various fair value measurements by categorizing them on the basis of the observability of the significant inputs used. Because the criteria for categorizing investments for which fair values are measured at net asset value using the practical expedient do not consider the observability of inputs, the resulting fair value hierarchy disclosures are potentially misleading and confusing to users.

Gregory M. Smith  
Senior Director of Fund Accounting and Compliance

#### **endnotes**

[1] The [exposure draft](#), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), (October 30, 2014) is available on the FASB website.

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