

**MEMO# 24487**

August 16, 2010

## **Draft ICI Comment Letter on FASB Fair Value Measurements and Disclosures Proposal - Comments Requested by August 25**

[24487]

August 16, 2010

TO: ACCOUNTING/TREASURERS COMMITTEE No. 9-10 RE: DRAFT ICI COMMENT LETTER ON FASB FAIR VALUE MEASUREMENTS AND DISCLOSURES PROPOSAL - COMMENTS REQUESTED BY AUGUST 25

As you know, the FASB recently proposed amendments to Topic 820 intended to ensure that fair value will have the same meaning in U.S. GAAP and IFRS, and that their respective fair value measurement and disclosure requirements will be the same. [\[1\]](#) Many of the changes in the proposal are wording changes intended to conform U.S. and international standards and are not expected to have a significant effect on practice. The proposal would, however, require new financial statement note disclosure regarding the measurement uncertainty in Level 3 fair value measurements. In particular, if changing one or more unobservable inputs used in a fair value measurement to a different amount that reasonably could have been used in the circumstances would have resulted in a significantly higher or lower fair value measurement, then the reporting entity must disclose the effect of using those different amounts and how it calculated that effect. The proposed measurement uncertainty analysis would not, however, be required for unquoted equity securities.

In the attached draft letter the Institute acknowledges that investors in corporate entities may find the proposed measurement uncertainty analysis useful in assessing earnings quality and the potential variability of earnings attributable to management's estimates of the fair value of Level 3 assets. The variability in earnings attributable to management's estimates may affect investors' assessment of the corporate entity and the price they are willing to pay for the issuer's shares.

The draft letter argues that there is little benefit associated with the measurement uncertainty analysis in the context of an open-end mutual fund that stands ready to redeem its shares at their current fair value. Because a fund shareholder may redeem shares at their fair value, there is no need for, and little benefit associated with the proposed measurement uncertainty analysis. The draft letter expresses concern that the proposed disclosure may cause investor confusion surrounding the fair value of the fund's shares and lessen confidence in the accuracy of the fund's net asset value per share and its reported returns. The letter recommends that investment companies that are required to redeem their shares daily at their current fair value be excluded from the proposed measurement uncertainty analysis.

The draft letter supports the exclusion of unquoted equity securities from the proposed measurement uncertainty analysis and recommends that the exclusion be made a part of Topic 820, so that its effectiveness is not contingent on adoption of the separate Board proposal on Topic 815.

Comments on the proposal are due to the FASB by September 7, 2010. If you have any comments on the Institute's draft letter, please contact the undersigned at 202/326-5851 or [smith@ici.org](mailto:smith@ici.org) by August 25.

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

[Attachment](#)

**endnotes**

[1] See ICI [Memorandum](#) to Accounting/Treasurers Members No. 21-10 dated July 2, 2010 [24401].