

MEMO# 32606

July 16, 2020

IDC Comments on SEC'S Fair Value Rule Proposal

[32606]

July 16, 2020 TO: ICI Members

Investment Company Directors SUBJECTS: Fund Governance RE: IDC Comments on SEC'S Fair Value Rule Proposal

IDC submitted the attached comment letter on the SEC's *Good Faith Determinations of Fair Value* proposal.[\[1\]](#) IDC's comment letter is summarized below.

IDC strongly supports the proposed framework, which, importantly, would permit a fund board to assign fair value determinations to the adviser, subject to the board's oversight. This confirmation of the board's oversight role with respect to fair value determinations provides welcome clarity to fund directors.

While the proposal's general framework reflects a modernized approach to fair valuation, certain components of the proposal—particularly the prescriptive nature of some of the proposed rule's provisions—would diminish the benefits of this modern approach.

These current valuation practices work well and have enabled a fund board to rely on the adviser and others for their valuation expertise while robustly overseeing the process, consistent with the board's role. The proposed rule would impose one-size-fits-all requirements for the determination of fair value and for board reporting, however. A rigid set of requirements could hinder innovation and the continued development of practices that have worked so well over the past several decades. IDC urges the Commission to allow for greater flexibility in this area.

The rule should be structured so that it can provide a durable framework that stands the test of time. To achieve that, IDC recommends the following modifications:

- Frame the rule as a safe harbor so that the specified functions are not the only way the board or adviser could satisfy its obligations;
- Modify the board reporting requirements and eliminate the prompt reporting requirement to promote more efficient and effective board oversight;
- Clarify the appropriate oversight role of fund boards;
- Modify the rule to better reflect the role of pricing services;

- Allow fund boards to assign fair value determinations to the fund administrator, in addition to an investment adviser of the fund; and
- Extend the compliance period to 18 months.

With these changes, IDC expects the rule to provide an effective structure, along with reasonable flexibility, with respect to the fair valuation process, to the benefit of funds and their shareholders, boards, and advisers.

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Independent Directors Council

[Attachment](#)

endnotes

[1] See [Memorandum No. 32409](#) (Apr. 23, 2020) for a summary of the proposal.

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