

MEMO# 32604

July 16, 2020

ICI Submits Comment Letter on SEC's Fair Value Proposal for Funds

[32604]

July 16, 2020 TO: ICI Members

Investment Company Directors SUBJECTS: Audit and Attest

Audit Committees

Compliance

Fund Accounting & Financial Reporting

Fund Governance

Intermediary Oversight

Investment Advisers

Operations

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Risk Oversight

Valuation RE: ICI Submits Comment Letter on SEC's Fair Value Proposal for Funds

In April, the SEC proposed new Rule 2a-5 under the Investment Company Act, which would address the fair value responsibilities of funds and their boards and advisers.[\[1\]](#) The proposal would:

- Establish specific valuation practices for all funds to apply to portfolio investments that do *not* have readily available market quotations;
- Impose additional oversight and reporting obligations where a fund's board assigns fair value responsibilities to an investment adviser; and
- Rescind prior SEC and staff guidance on valuation and defer to existing accounting standards.[\[2\]](#)

Summary of ICI's Comment Letter

ICI's comment letter (linked below) applauds the SEC for taking steps to improve and modernize the regulatory framework for fund valuation of portfolio securities. The proposal appropriately reflects the roles of fund boards and investment advisers, and correctly recognizes the importance of accounting standards to funds' fair value determination process. We recommend several refinements to the proposal that would position the SEC to adopt a final rule that benefits shareholders, funds, boards, and investment advisers.

We support the SEC's overall approach to this rulemaking, which would replace decades of

SEC and staff guidance with:

- a rule focused on the fair value process, allocation of related responsibilities, reporting to the board, and board oversight; and
- the valuation framework established by the Financial Accounting Standards Board (FASB).

We strongly support permitting fund boards to assign fair value responsibilities to investment advisers.

We recommend, however, that the SEC adopt a final rule that accounts for practical aspects of the daily valuation process (e.g., the differences in fair value practices, risks, and challenges across asset types, and the role of pricing services), by (i) permitting both pricing services and fund advisers to establish and apply fair value methodologies, and (ii) scaling back certain recordkeeping requirements to better reflect the nature of fixed income security valuation.

Further, we recommend that any final rule:

- Modify the frequency, timing, and content of the board reporting, to require annual (instead of quarterly) reporting for most items and quarterly reporting for especially timely and significant items.
- Be recast as a safe harbor, to recognize that this statutory requirement neither compels funds to determine fair value in a single way, nor readily translates into an exclusive set of rule requirements.

We conclude by commenting on more discrete aspects of the proposal. We support:

- Permitting sub-advisers to assume fair value responsibilities;
- Leaving the type and frequency of fair value methodology testing to the fund's discretion;[\[3\]](#) and
- Applying audit standards that permit sampling and other techniques to verify the values of portfolio securities.

We recommend that the SEC:

- Permit a fund board to assign fair value responsibilities to entities other than investment advisers (e.g., fund administrators);
- Reaffirm that deviations in methodologies, inputs, and resulting fair value determinations are inevitable across—and even within—fund complexes;
- Focus on the process, rather than specific criteria, of price challenges;
- Permit not only trustees, but also depositors and other entities to carry out fair value responsibilities for UITs;
- Affirm funds' current ability to cross-trade certain securities; and
- Provide an 18-month compliance period.

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Matthew Thornton
Assistant General Counsel>

[Attachment](#)

endnotes

[1] *Good Faith Determinations of Fair Value*, SEC Release No. IC-33845, Apr. 21, 2020, available at; www.sec.gov/rules/proposed/2020/ic-33845.pdf.

[2] See ICI Memorandum to Members [No. 32409](#), dated April 23, 2020, for a detailed summary of the proposal.

[3] We also recommend clarifying that parties other than the adviser may test fair value methodologies.

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