

MEMO# 11922

June 2, 2000

INSTITUTE COMMENTS ON FASB FAIR VALUE PROPOSAL

1 See Accounting/Treasurers Committee No. 2-00, SEC Rules Committee No. 4-00 (January 11, 2000). [11922] June 2, 2000 TO: ACCOUNTING/TREASURERS COMMITTEE No. 23-00 SEC RULES COMMITTEE No. 82-00 RE: INSTITUTE COMMENTS ON FASB FAIR VALUE PROPOSAL

As we previously reported, the Financial Accounting Standards Board is considering whether all issuers should be required to report financial instruments at fair value in their financial statements, and whether changes in fair value should be reported in current earnings.¹ Earlier this year the FASB issued a proposal entitled Preliminary Views on Major Issues Related to Reporting Financial Instruments and Certain Related Assets and Liabilities at Fair Value. The Preliminary Views is expected to form the basis for a statement of financial accounting standards which, when adopted, will be part of generally accepted accounting principles. The Preliminary Views indicates that securities actively traded on exchange markets should be valued at the closing price on the last trading day of the period less any commissions. Further, securities actively traded over-the-counter in dealer markets should be valued at the bid price (not the mean of the bid-ask spread). Also, the Preliminary Views indicates that a market price, regardless of its source, is presumed to be the best evidence of the fair value of an asset and delineates an exclusive list of circumstances in which an entity may adjust an observed market price. In the attached comment letter the Institute notes that investment companies are already required to value their assets at market or fair value, with changes in value reflected in earnings. Further, the valuation guidance described in the Preliminary Views conflicts with SEC valuation requirements applicable to investment companies. The letter indicates that valuation guidance described in the preliminary views may cause open-end funds to undervalue their shares, to the detriment of redeeming shareholders. The Institute's letter requests that investment companies be exempted from any financial accounting standard emanating from the Preliminary Views in deference to long-standing security valuation requirements promulgated by the SEC.

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