

MEMO# 14179

March 18, 2002

INSTITUTE PAPER ON MUTUAL FUND VALUATION ISSUES

[14179] March 18, 2002 TO: ACCOUNTING/TREASURERS MEMBERS No. 4-02 BOARD OF GOVERNORS No. 11-02 COMPLIANCE ADVISORY COMMITTEE No. 21-02 END OF DAY PRICING FORUM No. 2-02 INTERNATIONAL MEMBERS No. 3-02 PRIMARY CONTACTS - MEMBER COMPLEX No. 24-02 SEC RULES MEMBERS No. 19-02 RE: INSTITUTE PAPER ON MUTUAL FUND VALUATION ISSUES Enclosed is a copy of an Institute paper on mutual fund valuation issues, focusing primarily on issues related to fair valuation of fund portfolio securities in light of recent SEC staff guidance in this area. The paper is designed as a supplement to the Institute's 1997 paper on valuation and liquidity issues for mutual funds. It has been drafted with the assistance of a working group comprised primarily of members of the SEC Rules Committee, Accounting/Treasurers Committee, and International Committee. The supplement briefly reviews the statutory and regulatory framework for valuation described in greater detail in the Institute's 1997 paper and summarizes the letters issued by the SEC staff in 1999 and 2001 concerning valuation. It then discusses the valuation of foreign and domestic portfolio securities in light of these letters and the review of fair valuation methodologies used in that process. Finally, the supplement reviews the responsibilities of fund boards of directors or trustees in the valuation process. This paper is intended to inform and assist Institute members with respect to valuation issues. It is not intended, nor should it be relied upon, as a substitute for appropriate professional advice with respect to the applicability of laws and regulations in particular circumstances, nor is it intended to express any legal opinions or conclusions concerning any particular investment or any specific action, policy or procedure. Should you have any questions regarding the paper or related issues, please direct them to Frances Stadler at (202) 326-5822 or Bob Grohowski at (202) 371-5430. Craig S. Tyle General Counsel Enclosure