

MEMO# 33852

October 25, 2021

ICI's Draft "Primer" on the Fair Value Rules and Funds' Related Practices: Comments Requested by November 5 (COB)

[33852]

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TO: Accounting/Treasurers Committee

SEC Rules Committee

Security Valuation Operations Committee

Small Funds Committee RE: ICI's Draft "Primer" on the Fair Value Rules and Funds' Related Practices: Comments Requested by November 5 (COB)

Last December, the SEC adopted new Rule 2a-5 under the Investment Company Act, which addresses the fair valuation responsibilities of funds and their boards and advisers, along with a companion recordkeeping rule.[\[1\]](#) The final rules reflect the SEC's belief that "to determine the fair value of fund investments in good faith requires a certain minimum, consistent framework for fair value and standard of baseline practices across funds... ." In that adopting release, the SEC also rescinded prior SEC and staff guidance on fair valuation. The rules—with which funds must comply by September 8, 2022—represent the most significant regulatory development affecting funds' fair value practices in 50 years.

Given the importance of the new rules and fund valuation generally, we have prepared this draft "primer" on fund valuation practices. In it, we discuss or describe:

- The range of funds' portfolio investments and how they are valued generally;
- The key parties that contribute to fund valuation; and
- The core requirements of Rule 2a-5 and how they compare to current industry practices.

The Appendix summarizes the legal requirements and accounting standards that govern and shape fund valuation.

We believe this primer will be helpful to funds, advisers, and boards as they implement the new rules. Secondly, we believe the primer will make clear the rigor with which fund advisers, boards, and key third-party service providers carry out their work.

We very much welcome your input on this draft, particularly the bracketed items. If you could provide any comments you may have to us (smith@ici.org and matt.thornton@ici.org) by November 5, COB, we would greatly appreciate it.

Matthew Thornton
Associate General Counsel

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

endnotes

[1] Good Faith Determinations of Fair Value, SEC Release No. IC-34128 (Dec. 3, 2020), available at www.sec.gov/rules/final/2020/ic-34128.pdf.

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