

MEMO# 33874

October 29, 2021

Draft ICI Comment Letter on FASB Fair Value Measurement Proposal: Comments Requested by November 5

[33874]

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TO: Accounting/Treasurers Committee

Security Valuation Operations Committee SUBJECTS: Fund Accounting & Financial Reporting

Valuation RE: Draft ICI Comment Letter on FASB Fair Value Measurement Proposal:

Comments Requested by November 5

As we previously informed you the Financial Accounting Standards Board (FASB) recently released an exposure draft of a proposed accounting standards update that would amend ASC Topic 820, Fair Value Measurement.^[1] The proposed amendments address the fair value of equity securities that are registered for trading with regulatory authorities but are subject to contractual sale restrictions (e.g., an underwriter lock-up or market standoff agreement). Under the proposal, the fair value of the equity security subject to a contractual sale restriction would be measured on the basis of the market price of the same equity security without the contractual sale restriction and should not be adjusted to reflect the holder's inability to sell the equity security. Comments on the exposure draft are due to the FASB by November 14, 2021.

Please provide any comments on the attached draft comment letter to the undersigned by November 5 COB at smith@ici.org.

The draft letter supports the Board's conclusion that the principles of Topic 820 indicate that contractual sale restrictions should be disregarded when measuring fair value and that such securities should be valued at the market price of the identical equity security that is not subject to contractual sale restrictions. The draft letter notes that the proposal will: a) improve objectivity and reliance on observable market inputs, b) reduce cost and complexity, and c) improve comparability.

The draft letter acknowledges the concerns expressed by several Board members that the proposal will create a disconnect between economic fair value and accounting fair value. The letter argues that any disconnect would be de minimis because of the SEC rule that limits open-end fund investment in illiquid investments. The draft letter suggests one way to address these Board members' concerns would be to require note disclosure about the

proportion of the fund's investments that are subject to contractual sale restrictions and their weighted average duration.

The draft letter also supports the proposed transition guidance enabling entities that qualify as investment companies under Topic 946 to apply the proposed amendments in a manner intended to reduce the impact on the fund's daily net asset value calculation.

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

endnotes

[1] FASB Proposes Amendments to Address Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions, [ICI Memorandum No. 33782](#) (September 21, 2021).

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