

MEMO# 33895

November 12, 2021

ICI Files Comment Letter on FASB Fair Value Measurement Proposal

[33895]

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TO: ICI Members

Accounting/Treasurers Committee

Security Valuation Operations Committee SUBJECTS: Fund Accounting & Financial Reporting

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

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.

The Institute recently filed the attached letter supporting the proposal. The 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 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 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 immaterial in context of an open-end because of rule 22e-4's limits on illiquid investments. The letter suggests one way to address these Board members' concerns would be to require financial statement note disclosure about the proportion of the fund's investments that are subject to contractual sale restrictions and the weighted average duration of the restrictions.

The 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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