

COMMENT LETTER

April 13, 2007

ICI Comment Letter on FASB Invitation to Comment on Development of Valuation Guidance for Financial Reporting (pdf)

April 13, 2007 VIA ELECTRONIC MAIL Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Re: Valuation Guidance for Financial Reporting File Reference No. 1520-100 Dear Sir or Madam: The Investment Company Institute¹ appreciates the opportunity to respond to the Board's Invitation To Comment: Valuation Guidance for Financial Reporting (the "ITC"). The ITC asks constituents whether they need more guidance on measuring fair value for purposes of financial reporting, how the guidance should be developed, and what parties should be responsible for its development. The Institute agrees with the Board's conclusion that fair value reporting for financial assets and financial liabilities provide financial statement users with more relevant and understandable information than cost-based measures.² We encourage the Board to continue to incorporate fair value measurements into financial reporting, particularly where those measurements are corroborated by market data. 1 The Investment Company Institute is the national trade association of the U.S. investment company industry. ICI members include 8,821 open-end investment companies (mutual funds), 664 closed-end investment companies, 385 exchange-traded funds, and 4 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$10.481 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 93.9 million shareholders in more than 53.8 million households. 2 See FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, paragraph A3d. Investment companies have extensive experience with valuing their investment securities. Indeed, mutual funds are required to value their securities daily for purposes of determining their current net asset value.³ The 1940 Act defines value for this purpose as market value where market quotations are readily available, and fair value as determined in good faith by the fund's board of directors for other securities and assets.⁴ The Securities and Exchange Commission and Commission staff have issued various items of interpretive guidance elaborating on the concept of value. For example, Accounting Series Release 113 addresses valuation practices with respect to restricted securities.⁵ Accounting Series Release 118 provides guidance on a broad range of valuation issues and defines the fair value of a security as the amount the owner might reasonably expect to receive upon current sale.⁶ Accounting Series Release 219 enables funds to utilize the amortized cost method to value debt securities having remaining terms of 60 days or less.⁷ More recently, Commission staff has issued interpretive letters addressing fair value, the

availability of market quotations, and the effect of significant events that occur subsequent to a foreign market close.⁸ Importantly, Regulation S-X requires registered investment companies, in preparing their financial statements, to value their investments consistent with the valuation concepts prescribed in the 1940 Act.⁹ As we indicated in our comment letter on FAS No. 157, Fair Value Measurements, it is imperative that the valuation principles incorporated into generally accepted accounting principles are not inconsistent with the valuation requirements imposed on registered funds by the 1940 Act. Funds cannot concurrently comply with differing valuation regimes. In this regard, we were pleased to see that the Board ultimately rejected application of block discounts to actively traded securities when it adopted FAS No. 157. Question 3—What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting? ³ See Rule 2a-4 of the Investment Company Act of 1940 (“1940 Act”). ⁴ See 1940 Act Section 2(a)(41)(B). ⁵ Accounting Series Release No. 113, Investment Company Act Release No. 5847 (October 21, 1969). ⁶ Accounting Series Release No. 118, Investment Company Act Release No. 6295 (December 23, 1970). ⁷ Accounting Series Release No. 219, Investment Company Act Release No. 9786 (May 31, 1977). ⁸ Letter from Douglas Scheidt, Associate Director and Chief Counsel, Division of Investment Management, U.S. Securities and Exchange Commission to Craig S. Tyle, General Counsel, Investment Company Institute (December 8, 1999) and Letter from Douglas Scheidt, Associate Director and Chief Counsel, Division of Investment Management, U.S. Securities and Exchange Commission to Craig S. Tyle, General Counsel, Investment Company Institute (April 30, 2001). ⁹ See Regulation S-X rule 6-02(b) and rule 6-03(d). The ITC requests comment on the process that should be used to issue valuation guidance for financial reporting and identifies several alternative processes and entities that could be involved. If the Board ultimately decides to issue valuation guidance for financial reporting, we strongly recommend close coordination with the Securities and Exchange Commission. In particular, we urge the Board to consult with staff in the Division of Investment Management, which is responsible for the regulation and oversight of registered investment companies on valuation guidance relating to investment securities. If the Board decides to establish a resource group composed of valuation professionals and other interested parties to advise and assist in developing valuation guidance for financial reporting, we recommend that you include representation from the investment company industry. In particular, where the Board is developing guidance on valuation of investment securities, including fund personnel would be appropriate since funds have extensive experience valuing their holdings, both for daily net asset value calculations and financial reporting. We appreciate the opportunity to comment on the ITC and would be pleased to provide any additional information you may require. Please contact the undersigned at 202/326-5851. Sincerely, /s/ Gregory M. Smith Gregory M. Smith Director – Operations/ Compliance & Fund Accounting cc: Andrew J. Donohue, Director Division of Investment Management Richard F. Sennett, Chief Accountant Division of Investment Management U.S. Securities and Exchange Commission