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MFS Investment Management appreciates the opportunity to comment on the FASB Proposed Accounting Standards Update issued on August 28, 2009 titled Fair Value Measurements and Disclosures – Topic 820: Improving Disclosures about Fair Value Measurements (File Reference No. 1710-100) (the “Proposal”). Our comments relate to the Proposal’s application to Securities & Exchange Commission (SEC) registered investment companies as issuers of financial statements and as entities required to value securities on a daily basis to effect shareholder transactions.

MFS is a global asset management firm providing investment management services to clients including more than 70 publicly offered mutual funds. MFS and its predecessor organizations have been registered as an investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”) since 1969. MFS is a majority owned subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc., which in turn is an indirect majority owned subsidiary of Sun Life Financial, Inc. (a diversified financial services organization). MFS has been a subsidiary of Sun Life since 1982. As of September 30, 2009, MFS was managing approximately $175 billion in assets.

The Proposal clarifies current disclosure requirements regarding the level of disaggregation for classes of assets and liabilities and valuation techniques and inputs. The Proposal also would require issuers of financial statements to disclose:

- The effect of “reasonably possible” alternative inputs to valuation of Level 3 holdings (“sensitivity disclosures”);
- Significant transfers in and/or out of Levels 1 and 2; and
- Activity in the Level 3 roll-forward on a gross (rather than net) basis

MFS is generally supportive of the clarification of existing disclosure requirements regarding the level of disaggregation for classes of assets and liabilities and valuation techniques and inputs as well as the requirement to disclose activity in the Level 3 roll-forward on a gross (rather than net) basis. With respect to the additional requirements for sensitivity analysis and disclosure of significant transfers in and/or out of Levels 1 and 2, MFS supports the Investment Company Institute’s comment letter. MFS believes that these disclosures as applied to registered investment companies may confuse users of mutual fund financial statements and would be costly to implement.
Sensitivity Disclosures
MFS believes that the sensitivity disclosure requirements contained in the Proposal for registered investment companies is a departure from the valuation framework of the Investment Company Act of 1940 ("the 1940 Act"), may be confusing to shareholders and may create less confidence in an investment company’s stated net asset value (NAV).

A registered investment company ("Fund") computes current net asset value ("NAV") of its shares for many purposes, including for distributions, expense allocations, and shareholder transactions. A Fund is required to arrive at the best estimation of fair value for each security it holds on a daily basis to calculate the NAV in accordance with requirements set forth in Rule 2a-4 under the 1940 Act.\(^1\)

The fair values of Level 3 securities in the context of an investment company are typically determined by the board of directors or its designees using pre-determined valuation methodologies. These values are incorporated into the daily NAV computation process and form the basis upon which shares of the investment company are purchased and sold. The disclosure requirements in the Proposal would require an investment company to present a range of valuation based on "reasonably possible" alternatives to inputs used. Inclusion of this information in the financial statements will provide little benefit to shareholders as the range will not affect the NAV at which the share transactions are processed and may cause shareholder confusion. In addition, the level of effort in preparing the sensitivity analysis would be considerable. Because "reasonably possible" is defined as "the chance of the future event or events occurring is more than remote but less than likely", one could argue that an almost infinite number of potential scenarios could be "reasonably possible", and each would require a considerable effort to calculate. In addition, determining how many inputs should be reviewed for alternatives, what those alternatives are, and what result would be deemed significant could vary significantly among investment company financial statement preparers, leading to further confusion for the user of the financial statements.

Based on the above, we recommend that the proposed sensitivity disclosure requirement be eliminated, so that only the inputs that result in the fair value price that represents the best estimate of fair value, as determined consistent with the Investment Company Act, are used. However, if the Proposal is approved in its current form, we suggest additional guidance regarding what amount of Level 3 exposure should be deemed significant for the purpose of this disclosure to ensure some standardization in practice. If some form of sensitivity disclosure is required, we recommend that a materiality standard similar to the concepts laid out in Rule 4-08(m) of SEC Regulation S-X be applied. Additionally, if a sensitivity disclosure is required, we recommend that the alternative inputs considered be limited to those that result in a range of values that can be considered to have a likely chance of occurring. Excluding less than likely inputs will mitigate some of the confusion for the users of the financial statements.

Disclosing Significant Transfers in and/or out of Levels 1 and 2
MFS believes that the proposed disclosure of significant transfers in and/or out of Levels 1 and 2 as currently drafted as applied to registered investment companies will cause a significant amount of work for limited, if any, value to shareholders. In the mutual fund industry, almost all Funds apply some form of significant event fair valuation approach for foreign equity holdings to adjust the closing prices of securities traded on foreign exchanges to account for significant market movement between the time of the close of the foreign exchange and the close of the US market (4:00 pm). Closing prices from foreign exchanges are adjusted when significant market movement is deemed to have occurred on a particular day. For disclosure purposes, closing

\(^1\) Rule 2a-4 of the 1940 Act states in part: "Portfolio Securities with respect to which market quotations are readily available shall be valued at current market value, and other securities and assets shall be valued at fair value as determined in good faith by the board of directors of the registered investment company."
prices from foreign exchanges that have not been adjusted (as significant market movement has not happened on a particular day) are generally categorized as Level 1 prices, while closing prices that have been adjusted (as significant market movement has occurred on a particular day) are generally categorized as Level 2. Based on the level of market volatility, a significant number of securities could be transferred between Level 1 and Level 2 throughout the fiscal year and more often than not, these transfers can be a daily event. The practice of fair valuing the foreign equities is typically disclosed in the footnotes of the financial statements along with other comprehensive valuation disclosures, therefore we believe that shareholders already have sufficient information with regard to these practices. Additional disclosure would not add any value to shareholders. Based on the above we recommend that the Board amend the Proposal to not require disclosure of transfers of assets between Level 1 and Level 2 that result from the registered investment company's ordinary and customary fair valuation of foreign equities and provide that this valuation process be described in the financial statement footnote. Specific disclosure of transfers from one Level to another Level should only be required if the transfer results from a change in valuation methodology and the value of the transfers meet materiality standards similar to the concepts laid out in Rule 4-08(m) of SEC Regulation S-X.

If the Proposal is approved substantially in its current form and continues to apply to registered investment companies, MFS believes that additional time would be required to establish and implement processes to support the disclosures given the amount of work required. MFS respectfully requests that the effective dates should be extended to provide sufficient time to comply.

MFS appreciates the opportunity to offer comments to the Proposal. If you have any questions about our comments please feel free to call me at 617-954-5637.

Sincerely,

John Corcoran
Senior Vice President
MFS Investment Management