MINUTES

Financial Accounting Standards Board

To:	FASB Board Members
From:	FAS 157 Team (Martin x354)
Subject:	Minutes of the May 6, 2009 Board Meeting: Determining the Fair Value of Interests in Alternative Investments Using Net Asset Value
Date:	May 27, 2009
cc:	FASB: Golden, Bielstein, Proestakes, Stoklosa, Mechanick, Anderson, Glotzer, Chookaszian, Posta, Lott, C. Smith, Gabriele, Inzano, Maples, Sutay, Mills, FASB Intranet, Clark, Martin, Klimek, Allen; GASB: Reese, Schermann; IASB: Leisenring

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topic:	Determining the Fair Value of Interests in Alternative Investments Using Net Asset Value
Basis for Discussion:	Memorandum No. 1
Length of Discussion:	8:00 a.m. – 9:10 a.m.
Attendance:	
Board members present:	FASB: Herz, Linsmeier, Seidman, Siegel, and Smith
Board members participating by phone:	None
Board members absent:	None
Staff in charge of topic:	FASB: Anderson, Mills, Inzano

Other staff at Board table: FASB: Golden, Proestakes, Mechanick, Laungani, Clark, Martin

Summary of Decisions Reached

The Board decided to provide additional guidance related to determining the fair value of certain alternative investments, such as interests in private equity, venture capital, and hedge funds, in accordance with FASB Statement No. 157, *Fair Value Measurements*.

The scope of the proposed guidance would be limited to investments in entities that apply the AICPA Audit and Accounting Guide, *Investment Companies*, with a scope exception for exchange traded funds (for example, a registered closed-end fund that is actively or inactively traded).

The Board decided that an investor entity would estimate the fair value of its interests in alternative investments using the net asset value as of the investor entity's financial statement date, as long as the net asset value has been calculated in accordance with the investment companies Guide.

The proposed guidance also would require an investor entity to disclose the fair value (net asset value) of investments in alternative investments and:

1. For an interest in a private equity fund, the investor's best estimate of the fund's remaining life
2. The investor's best estimate of the amount and timing of any remaining capital commitments
3. For an investment with redemption rights:
    a. The terms and conditions upon which the investor may redeem its investment (for example, quarterly redemption with 60 days' notice).
    b. The terms and conditions of any restrictions that would (or could) temporarily preclude redemption by the investor, including the investor's best estimate of when the restriction will lapse.

The proposed guidance would be effective upon issuance and would be applied prospectively to any periods for which financial statements have not been issued. Revisions to values of interests in alternative investments resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate. The disclosure provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections,* for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application.

The Board directed the staff to proceed to a draft of a proposed FSP for vote by written ballot. The Board plans to issue that proposed FSP for public comment on or about May 22, 2009, with a 30-day comment period.

Objective of the Meeting

The objectives of the meeting were (a) to discuss practice issues that have arisen since the issuance of Statement 157 related to determining the fair value of certain alternative investments in entities that apply the Guide, and (b) determine whether the proposed FASB Staff Position (FSP) should be issued to address those issues. The objectives were met.

Matters Discussed and Decisions Reached

SCOPE

1. **Staff recommendation**: The staff recommended that the proposed FSP apply to investments in entities that are within the scope of the Guide, except when fair value is required to be determined in accordance with paragraph 24 of Statement 157, which applies to Level 1 measurements.
2. **Board vote**: The Board unanimously agreed that the proposed FSP apply to investments in entities that are within the scope of the Guide. The Board decided that the scope exception would not be limited to investments in funds that are actively exchanged, but would also include investments in funds where the investor can only enter and exit the investment through an exchange versus through redemptions with or distributions from the fund.
3. **Board comments**: Mr. Linsmeier observed that in determining the scope of the proposed FSP, the Board should consider what the primary market for a particular investment is.

Namely, whether the investment in entered into and exited through a transaction with the fund, or through a transaction in the market. In the latter case, NAV is not likely to be relevant measure of the investment and such investments should be excluded from the scope of the proposed FSP. An example of such investments would be closed-end exchange-traded funds.

4. Ms. Seidman observed that in view of the fact that the Board deferred AICPA Statement of Position No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, the proposed FSP should ask a question whether constituents perceive any ambiguity as to what types of funds are within the scope of the Guide.

ADJUSTMENTS TO NET ASSET VALUE

5. **Staff recommendation**: The staff recommended that the Board indicate that NAV is the fair value of an investment in a fund within the scope of the proposed FSP, provided that the NAV has been determined in accordance with the Guide and is reflective of the fair value of the underlying investments at the investor's measurement date (that is, the NAV is current). The staff did not recommend that the Board provide any additional guidance beyond that contained in the Guide for determining NAV.

6. **Board vote**: The Board unanimously agreed with the staff recommendation.

DISCLOSURES

7. **Staff recommendation**: The staff recommended the following disclosures (in addition to those required by Statement 157):
    a. For nonredeemable funds, disclose the net asset value (fair value) of the investment and:
        1. The reporting entity's best estimate of the expected timing of distributions from nonredeemable funds
        2. The reporting entity's best estimate of the amount and expected timing of additional capital commitments, if any.
    b. For redeemable funds, disclose the net asset value (fair value) of the investment and:

1. The terms and conditions upon which the reporting entity may redeem its investment (for example, quarterly redemption with 30 days notice)
2. If the reporting entity is currently restricted from redeeming its interest in the fund (for example, due to a lock-up or a gate), the nature and terms of the restriction and the reporting entity's best estimate of when the restriction will lapse.

8. **Board vote**: The Board decided that the proposed FSP would require a single set of disclosures for both types of funds. The disclosures would include the investor's best estimate of the amount and timing of any remaining capital commitments and, for an investment with redemption rights, the terms and conditions upon which the investor may redeem its investment and the terms and conditions of any restrictions that would (or could) temporarily preclude redemption by the investor, including the investor's best estimate of when the restriction will lapse. Additionally, instead of requiring an entity to disclose its best estimate of the expected timing of distributions from nonredeemable funds, an entity would be required to disclose the investor's best estimate of the fund's remaining life.

9. **Board comments**: Ms. Seidman suggested that the disclosure about the fund's life focus on the remaining life as opposed to the fund's original expected life.

10. Mr. Linsmeier suggested that for investments that typically have one distribution date, such as private equity, the investor should disclose whether the investment can be exited through the fund prior to the scheduled or anticipated distribution date.

11. Mr. Siegel stated that if investor intends to exit (sell) the investment prior to redemption date, this fact should be disclosed.

12. The Board discussed what level within the fair value hierarchy alternative investments would be categorized in, but no decision was reached on the question. The Board decided that this question may be further deliberated in the course of the project on Improving Disclosures to Fair Value Measurements.

13. Mr. Linsmeier observed that during redemption periods, alternative investments could qualify as Level 1 measurements because an observable price for the investment interest would exist at the time.

14. Mr. Smith observed that this approach would cause alternative investments to move between categories according to whether financial statements of the investor entity are issued during a redemption period or not, which would negatively affect the statements' consistency.

15. Mr. Herz stated that he believes alternative investments should be categorized as Level 3 in fair value hierarchy, but questioned the usefulness of additional Level 3 disclosures for this class of investments.

16. Mr. Linsmeier emphasized that in determining the level within the fair value hierarchy for alternative investments, investors should not look to the valuation techniques used by the fund to arrive at NAV. Rather, the level within the hierarchy for this class of investments would depend on other factors, such as the ability to redeem the investment at NAV, and the frequency with which the investment can be redeemed.

EFFECTIVE DATE AND TRANSITION

17. **Staff recommendation:** The staff recommended the following effective date and transition: This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate (Statement 154, paragraph 19). The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application.

18. **Board vote**: The Board unanimously agreed with the staff recommendation.

COMMENT PERIOD

19. **Staff recommendation**: The staff recommended a 30-day comment period for the proposed FSP.

20. **Board vote**: The Board unanimously agreed with the staff recommendation.

Follow-up Items

The Board directed the staff to proceed to a draft of the proposed FSP for vote by written ballot.

General Announcements

None.