

MINUTES



MEMORANDUM

To: Board Members

From: Definition of Readily Determinable Fair Value Project Team (Debbink x296)

Subject: Minutes of March 1, 2017 Board Meeting

Date: March 13, 2017

cc: Stacey Sutay (x270)

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 an Accounting Standards Update or a Statement of Financial Accounting Concepts.

Topic: Master Glossary Definition of *Readily Determinable Fair Value*

Basis for Discussion: FASB Memo No. 2

Length of Discussion: 9:00 a.m. to 9:40 a.m. EST

Attendance:

Board members present: Golden, Kroeker, Botosan, Monk, Schroeder, and L. Smith

Board members absent: Siegel

Staff in charge of topic: Wyss

Other staff at Board table: Proestakes, Debbink, Moynihan, and Cospers

Outside participants: n/a

Type of Document and Timing Based on the Technical Plan:

The Board met to discuss the results of the staff research on a potential project on the Codification Master Glossary definition of *readily determinable fair value*, and to decide whether to add a project to its agenda based on the research performed.

Tentative Board Decisions:

The Board decided not to add a project on the Master Glossary definition of *readily determinable fair value* to its agenda.

(Vote: 6–1)

The Board decided to amend the illustrative example in paragraph 962-325-55-17 as part of the technical corrections and improvements project.

(Vote: 7–0)

During the meeting, one Board member noted that the language used in Question 5 of the FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers*, was designed to aid in the determination of whether to measure an investment at cost or fair value. However, this is not a decision that applies to most entities that raised an issue about the amended definition of *readily determinable fair value* (that is, employee benefit plans and investment companies) because there are other areas of guidance that require those entities to measure investments at fair value. Because the definition was intended to assist certain entities in determining between whether to measure an investment at cost or fair value, limited partnerships and venture capital entities were included at that time so that it did not create an opportunity for corporations to hold an investment in a mutual fund that is measured at fair value and a similar investment in a venture capital entity that is measured at cost.

However, the Board recognizes that the language from Question 5 of the Statement 115 Implementation Guide that was inserted into the definition of *readily determinable fair value* in Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*, does not fully reflect the nature of a limited partnership or venture capital entity that is structured similar to a mutual fund. In Question 5 of the Statement 115 Implementation Guide, substantially all of the assets of the limited partnership consist of investments in debt or equity securities that have readily determinable fair values. Some Board members noted that including “a limited partnership or a venture capital entity” in the definition creates confusion because the definition could be interpreted that *all* limited partnerships and venture capital entities would be considered to have a readily determinable fair value. However, this was not the intent of Question 5 of the Statement 115 Implementation Guide, and it was not the intent of the Board in Update 2015-10.

The Board decided to retain “(that is, a limited partnership or a venture capital entity)” in the amended definition. The Board noted that removing references to limited partnership and venture capital entity could signal to financial statement preparers that it is unnecessary to consider whether those investments meet condition (c) of the amended definition. Consequently, corporations might change their measurement method for those investments from fair value to cost, only to change the measurement method back to fair value as will be required by the amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, when those amendments become effective.

The Board could not identify a pervasive measurement issue on the basis of outreach conducted with stakeholders. While the Board acknowledged that the interpretation of the Master Glossary definition of *readily determinable fair value* could have implications on which set of disclosures may be used for certain investments (that is, fair value measurement disclosures or net asset value per share practical expedient disclosures), some Board members concluded that users of the financial statements would not be misled when provided either set of disclosures. Therefore, the Board would encourage entities to provide the disclosures that are consistent with the conclusions previously reached on the measurement of the investment.

Next Steps

The staff will draft the proposed amendments to the illustrative example in paragraph 962-325-55-17. Those draft amendments will be subsumed into the [technical corrections and improvements](#), which is a standing project on the FASB’s agenda.

General Announcements:

None.