Memo Purpose

1. The purpose of this memo is to inform the Private Company Council about the issues raised by stakeholders on the Master Glossary definition of readily determinable fair value, input obtained during outreach, alternatives considered, and the decisions made by the Board at its March 1, 2017 Board meeting.

2. This memo is organized as follows:
   (a) Issue background
   (b) Issue 1: Scope
   (c) Issue 2: Measurement
   (d) Issue 3: Disclosures
   (e) Alternatives considered by the Board
   (f) Board decisions and basis for decisions
   (g) Appendix A—Measurement principles from Topic 946, Financial Services—Investment Companies
   (h) Appendix B—Net asset value per share practical expedient disclosures
   (i) Appendix C—Fair value measurement disclosures
Question for the Private Company Council

1. Do PCC members have any questions or comments about the issues discussed in the memo?

Issue Background

3. Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements*, issued in June 2015, includes amendments to condition (c) of the Master Glossary definition of *readily determinable fair value* (see underlined text). Paragraphs 29 and 30 of Update 2015-10 state:

   The following amendment incorporates wording from Question 5 of the FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*. Question 5 indicates that condition (c) of the definition of *readily determinable fair value* may be applied to investments other than investments in a mutual fund. The Codification omitted this distinction from the definition of *readily determinable fair value*.

   Amend the Master Glossary term *readily determinable fair value*, with no link to a transition paragraph, as follows:

   **Readily Determinable Fair Value**

   An equity security has a readily determinable fair value if it meets any of the following conditions:

   a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

   b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

   c. The fair value of an *equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity)* is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

4. After the issuance of Update 2015-10, members from several AICPA Industry Expert Panels (that is, the Employee Benefit Plan (EBP) Expert Panel, the Investment Companies Expert Panel, and the Private Equity and Venture Capital Task Force) collectively raised several issues about the amended definition. The primary issue they raised was about the scope of equity securities that should be evaluated for a readily determinable fair value. As a consequence of the scope issue, they also raised issues on the measurement and disclosure of certain equity securities. Descriptions of those issues are included in subsequent sections of this memo.
5. The most common types of investments about which those stakeholders raised concerns were:
   
   (a) Common-collective trusts
   (b) Interests in private equity funds
   (c) Real estate funds
   (d) Venture capital funds
   (e) Hedge funds
   (f) Investments in limited partnerships

Relevance of Readily Determinable Fair Value

6. The Master Glossary definition of readily determinable fair value is used in several places in the Codification, including in the assessment of:

   (a) Whether an equity investment is required to be reported at fair value in Topic 321, Investments—Equity Securities (previously included in Topic 320, Debt and Equity Securities), and Subtopic 958-321, Not-for-Profit Entities—Investments—Equity Securities (previously included in Subtopic 958-320, Not-for-Profit Entities, Investments—Equity Securities)

   (b) An investment’s ability to qualify for the net asset value (NAV) per share practical expedient to measuring fair value in Topic 820, Fair Value Measurement

   (c) Whether to include an investment in the fair value hierarchy disclosures in Topic 820.

Proposed Accounting Standards Update Comment Letters and Technical Inquiries

7. The proposed Accounting Standards Update, Technical Corrections and Improvements, was issued on September 15, 2014. None of the concerns raised by the seven comment letter respondents were similar to the issues raised by the expert panels, and no issues were raised through discussions with stakeholders during the 75-day public comment period.

8. Since the 1993 issuance of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, the FASB has received eight technical inquiries about the definition of readily determinable fair value, six of which were received before the definition was amended by Update 2015-10. Four of those six technical inquiries requested clarification about whether common-collective trusts, private equity funds, and interests in limited partnerships are included within the scope of the definition, or whether condition (c) of the definition only applies to mutual funds. The FASB staff’s responses to those technical inquiries were consistent—that alternative investments should be analyzed for a readily determinable fair value, and that condition (c) does not apply solely to mutual funds. The remaining two of the six technical inquiries received before the amendment
asked how to account for investments in private equity funds and private corporations if the fair value of those investments is not readily determinable.

9. Of the two technical inquiries received since issuance of Update 2015-10, one was from the expert panels and the other from a public accounting firm that raised issues similar to the issues raised by the expert panels.

Outreach Performed

10. Since the scope issues were raised, the staff performed outreach with the Big Four public accounting firms representing a number of industries, including employee benefit plans, not-for-profit, health care, and investment companies; the Private Company Council; and members of several AICPA Industry Plan Expert Panels (specifically, the EBP, investment company, health care, and NFP Expert Panels) to determine the significance and prevalence of those issues. The staff also leveraged outreach performed with users during past and current projects. The outreach results are included in subsequent sections of this memo.

Issue 1: Scope

Structures Similar to a Mutual Fund

11. Stakeholders stated that by amending the definition to include “structures similar to a mutual fund (that is, a limited partnership or a venture capital entity),” the scope of equity securities to be evaluated for readily determinable fair value was expanded. Stakeholders noted that before being amended, the definition was narrowly interpreted by some to include only mutual funds. Therefore, certain investments that previously were not evaluated because they were considered to be outside the scope of the definition may now have to be evaluated to determine whether they have a readily determinable fair value. Stakeholders indicated that the amended definition results in unintended consequences with the measurement and disclosures of “structures similar to a mutual fund.”

12. Those stakeholders referenced paragraph 47 of the basis for conclusions of Statement 115 to support their view that the scope of the amended definition is broader than what the Board intended when it issued Statement 115. Paragraph 47 states “the Board decided the scope should include only equity securities with readily determinable fair values because a broader scope would include equity instruments that would present significant valuation problems, such as investments in closely held companies and partnerships.”

13. Stakeholders also raised concerns that including the parenthetical “that is, a limited partnership or a venture capital entity” in the definition provides two poor examples because limited partnerships and venture capital entities are not indicative of a structure similar to a mutual fund and their
inclusion only adds to the confusion about what types of investments should be analyzed for a readily determinable fair value.

**Outreach**

14. The following feedback was obtained from stakeholders about the issues raised in paragraphs 11 through 13 of this memo:

(a) One accounting firm asserted that the definition of *readily determinable fair value* (before and after the amendments) generally has been interpreted more broadly to include both mutual funds and investments that have a structure similar to a mutual fund. Therefore, representatives from that accounting firm are unaware of any diversity in practice about the scope of the type of investments included in the definition (before or after the amendments).

(b) In contrast, other accounting firms and members of the AICPA EBP Expert Panel stated that diversity in practice did not exist before the amendment; however, diversity exists after the amendment with employee benefit plans. Employee benefit plans generally interpreted the pre-amended definition narrowly to include only mutual funds. However, those stakeholders noted that the diversity in practice in employee benefit plans is limited to disclosures, as discussed in a later section in this memo.

(c) Several members of the AICPA NFP Expert Panel and two health care industry experts asserted that not-for-profit and health care entities generally interpreted the pre-amended definition narrowly to include only mutual funds. Therefore, including “structures similar to mutual funds” expands the scope of investments subject to the definition.

(d) The parenthetical “that is, a limited partnership or a venture capital entity” in the definition provides two poor examples of a structure similar to a mutual fund. Venture capital entities rarely have a readily determinable fair value.

(e) The parenthetical “that is, a limited partnership or a venture capital entity,” is contradictory to the following paragraph included in the summary section of Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*:

An investor may invest in entities (investees) that permit the investor to redeem its investments directly with the investee at times specified under the terms of the investee’s governing documents. Many of these investments do not have a readily determinable fair value as defined in the Master Glossary of the FASB Accounting Standards Codification™ (because, for example, those investments are not listed on national exchanges or over-the-counter markets such as the National Association of Securities Dealers Automated Quotation System). Examples of these investees (also referred to as alternative investments) may include hedge funds, private equity funds, real estate funds, venture capital funds,
offshore fund vehicles, and funds of funds. Many of these investees provide their investors with a NAV per share.

(f) While there were varying views about the scope of investments within the definition, the stakeholders in the staff’s outreach generally agreed that structures similar to mutual funds should be treated in a manner similar to mutual funds.

Interpretation of Published and Basis for Current Transactions

15. Stakeholders indicated that evaluating whether investments with structures similar to a mutual fund have a readily determinable fair value is based on the interpretation of the terms published and basis for current transactions, which are not defined in the Codification. While those undefined terms always have been used in the definition of readily determinable fair value, stakeholders noted that for those with a narrow interpretation of the pre-amended definition, the terms never drew much attention because mutual fund pricing information is regularly and widely available online. In contrast, structures similar to a mutual fund may not provide pricing information with a similar frequency or level of accessibility as a mutual fund. Consequently, introducing structures similar to mutual funds into the definition places more pressure on the undefined terms published and basis for current transactions when evaluating whether structures similar to a mutual fund have a readily determinable fair value.

Outreach

16. The following feedback was obtained from stakeholders about the issues raised in paragraph 15 of this memo:

(a) The interpretation of the terms published and basis for current transactions in condition (c) of the definition could result in diversity in practice because those terms are undefined. Additionally, when alternative investments (for example, common-collective trust funds) exhibit both similarities and differences to mutual funds, it is unclear what is meant by the term similar in structures similar to a mutual fund. To minimize the diversity in practice, some stakeholders requested that the Board either define those terms or provide illustrative examples.

(b) There is a consistent understanding of the term published, and the amended definition of readily determinable fair value does not change that understanding.

Issue 2: Measurement

17. Stakeholders raised an issue that the amended definition of readily determinable fair value could affect the measurement of alternative investments. First, stakeholders noted that certain alternative investments that are being measured at cost because they were thought to be outside the scope
of Topic 320\(^1\) and Subtopic 958-320,\(^2\) could now have a readily determinable fair value. Therefore, those investments would need to be measured at fair value.

18. Second, stakeholders indicated that there could be a measurement difference that arises with alternative investments that were measured using the NAV per share practical expedient before the definition was amended. The NAV per share practical expedient permits a reporting entity to measure the fair value of an investment on the basis of the NAV per share without any additional adjustments if both of the following criteria are met: (a) the investment must not have a readily determinable fair value and (b) the investment is in an investment company within the scope of Topic 946, Financial Services—Investment Companies, or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in Topic 946. Appendix A includes the relevant guidance from Topic 946.

19. Stakeholders noted that because the definition was expanded to include structures similar to a mutual fund, alternative investments may no longer meet the first criterion of the NAV per share practical expedient. That is, alternative investments might have a readily determinable fair value and would be prohibited from estimating fair value using the NAV per share practical expedient. Consequently, those alternative investments would need to be measured at fair value with additional adjustments to the NAV. Adjustments to arrive at fair value generally account for those attributes as restrictions on redemption at the measurement date, transaction prices from principal-to-principal, or brokered transactions.

**Outreach**

20. The following feedback was obtained from stakeholders about the issues raised in paragraphs 17 through 19 of this memo:

(a) The pre-amended definition could have been interpreted to exclude investments other than mutual funds, and, therefore, investments other than mutual funds might be inadvertently measured at cost instead of fair value. However, stakeholders were unable to provide additional details about the scope of entity types affected or examples of the type of investments that might have been measured at cost.

(b) While some stakeholders noted that an investment measured using the NAV per share practical expedient may be measured differently if those investments meet the definition of readily

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\(^2\) With the issuance of Update 2016-01, the incremental standards of financial accounting and reporting for investments in equity securities held by not-for-profit entities resides in Subtopic 958-321.
determinable fair value, those stakeholders were unaware of instances in which there would be a significant difference between fair value and NAV per share, noting that NAV per share provided by the investee is often equivalent to fair value.

(c) In a previous standard-setting project, financial statement users indicated that they generally prefer the consistency and comparability of NAV per share (or its equivalent) without further adjustment when the costs and efforts involved in adjusting the NAV to fair value are high. This is because the adjustments can often be highly subjective, and they do not provide the most decision-useful information in instances in which a high degree of subjectivity is exercised in making the adjustments.

Issue 3: Disclosures

Current Guidance on Fair Value Measurement Disclosures

21. The existing requirements for disclosures about fair value measurements are in Topic 820. The pronouncements that established those requirements were:

(a) FASB Statement No. 157, *Fair Value Measurements* (as amended).

(b) Update 2009-12.

(c) FASB Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.

(d) FASB Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

22. The staff also notes that in December 2015, amendments were proposed to the fair value measurement disclosures in the proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*.

Background Information on Fair Value Measurement and NAV per Share Practical Expedient Disclosures

23. The disclosures in paragraph 820-10-50-60A are required for entities that have elected, as a practical expedient, to measure the fair value of an investment on the basis of the NAV per share (as discussed in paragraph 24). The disclosures in paragraph 820-10-50-2 are required for entities that either have not elected, as a practical expedient, to measure the fair value of an investment
on the basis of the NAV per share or their investments have a readily determinable fair value and are ineligible to elect the NAV per share practical expedient.

24. The staff notes that several important differences exist between the NAV per share practical expedient disclosures required in paragraph 820-10-50-6A and the fair value measurement disclosures required in paragraph 820-10-50-2. The most notable disclosure difference is that investments for which fair value is measured using the NAV per share practical expedient are not required to be categorized within the fair value hierarchy, whereas under the fair value measurement disclosures, an entity is required to disclose the level within the fair value hierarchy where the investments are categorized.

25. Another notable disclosure difference is the content and amount of detailed information required. Disclosures required for investments measured using the NAV per share practical expedient include information about the nature and risks of the investments, including investment strategies, redemption terms and conditions, and restrictions on the ability to sell investments. Fair value measurement disclosures include valuation techniques, transfers between levels of the hierarchy, inputs used to measure fair value for Level 2 and Level 3 investments, and a reconciliation of the opening and closing balance of Level 3 investments. Appendixes B and C include the NAV per share practical expedient and fair value measurement disclosures, respectively.

Description of Disclosure Issue Raised

26. Stakeholders raised an issue that certain alternative investments may be ineligible to be measured using the NAV per share practical expedient in Topic 820 because the scope of the definition was expanded by the amendments. If it is determined that those investments have a readily determinable fair value and cannot be measured using the NAV per share practical expedient, then those investments would be subject to the fair value measurement disclosures required by paragraph 820-10-50-2, including the requirement to categorize the investment within the fair value hierarchy. Stakeholders asserted that the ambiguity about the scope of the investments in the amended definition leads to uncertainty about which disclosures may be provided.

27. Stakeholders stated that one of the main objectives of the amendments in Update 2015-07 was to reduce the diversity in practice about how certain investments measured at NAV with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. That diversity in practice would re-emerge if it was determined that those investments have a readily determinable fair value based on the amended definition and, therefore, would be categorized within the fair value hierarchy.
28. The following feedback was obtained from stakeholders about the issues raised in paragraphs 26 and 27 of this memo:

(a) Stakeholders asserted that because the amended definition makes it unclear when alternative investments are eligible to apply the NAV per share practical expedient, it is unclear which set of disclosures (that is, fair value or NAV per share practical expedient) should be provided. Some stakeholders suggested that the Board clarify when it is appropriate to use the NAV per share practical expedient and provide its related disclosures.

(b) Two health care industry experts and the NFP expert panel noted that many health care and NFP entities early adopted the guidance in Update 2015-07, which removed from the fair value hierarchy the categorizing of investments that are measured using the NAV per share practical expedient. Those stakeholders noted that because of the diversity in practice resulting from applying the amended definition, those entities may need to re-evaluate whether those investments have a readily determinable fair value and, if so, unwind the adoption of the guidance in Update 2015-07. Furthermore, those entities would need to determine whether there is a correction of error and its effect on the financial statements as a whole.

(c) During outreach for Update 2015-07, financial statement users expressed the view that the disclosures required for fair value measurements and the disclosures required for the NAV per share practical expedient have different objectives. That is, fair value measurement disclosures provide significantly more valuation information through categorization of investments on the basis of observability of significant inputs in fair value measurement, while NAV per share practical expedient disclosures do not consider the observability of inputs in measurement. Therefore, fair value measurement disclosures lose relevance and become confusing and misleading to users if used in conjunction with the NAV practical expedient. Instead, users indicated that disclosures about restrictions on the ability to redeem certain investments would be helpful in those circumstances to assess the liquidity of those investments, as well as the effect of those investments on future cash flows.

(d) The EBP Expert Panel and representatives from several public accounting firms that work in the employee benefit plan industry noted that the illustrative example in paragraph 962-325-55-17 sends mixed signals about when a stable value collective trust fund can elect the NAV per share practical expedient. In that example, the stable value collective trust fund is measured at NAV per share and required NAV disclosures are provided. Additionally, in that example, the collective trust fund has a daily redemption frequency, which those stakeholders noted is a feature common to a mutual fund with a readily determinable fair value. Consequently, the stable value collective trust fund would be ineligible to be measured using the NAV per share practical expedient if it met condition (c) of the amended definition. Those stakeholders
indicated that interpretation of the example is largely that the stable value collective trust funds do not have a readily determinable fair value and, therefore, would qualify for the NAV per share practical expedient. In other words, there is a tendency for employee benefit plans to regularly measure stable value collective trust funds and other similar investments using the NAV per share practical expedient without first evaluating whether a readily determinable fair value exists. Those stakeholders suggested that the example be amended to avoid the interpretation that such investments should always be measured using the NAV per share practical expedient.

Alternatives Considered by the Board

29. The following table includes the alternatives considered by the Board as well as the associated advantages and disadvantages of each alternative.

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<tr>
<th>Alternatives</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Remove references to limited partnership and venture capital entity from the amended definition</td>
<td>• Would reduce the confusion in interpreting the amended definition because limited partnerships and venture capital entities are not indicative of structures similar to mutual funds.</td>
<td>• Removing those references would signal to financial statement preparers that it is unnecessary to consider whether condition (c) would be met. This would change the practice of those stakeholders who interpreted the pre-amended definition to include both mutual funds and structures similar to mutual funds. • The inclusion of those references serves as a reminder of the importance of analyzing all investments similar to a mutual fund for a readily determinable fair value.</td>
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<tr>
<td>Amend the example in paragraph 962-325-55-17, by removing the stable value collective trust fund from the example</td>
<td>• Would eliminate the interpretation that the stable value collective trust fund does not have a readily determinable fair value and should always be measured using the net asset value per share practical expedient. • Employee benefit plans would be less inclined to automatically elect the NAV per share practical expedient and would evaluate stable value collective trust funds and other similar investments for a readily determinable fair value.</td>
<td>• The example would no longer provide an illustration of an investment that is measured using the NAV per share practical expedient.</td>
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<tr>
<td>Require NAV per share practical expedient disclosures for any investment that transacts with investors at NAV per share, regardless of whether it meets condition (c)</td>
<td>• NAV per share practical expedient disclosures might provide more relevant information for an investment that transacts with investors at NAV (for example, mutual funds) compared with the fair value measurement disclosures. • Requiring the NAV per share practical expedient disclosures for</td>
<td>• Removing some investments with a readily determinable fair value from the fair value hierarchy would create an inconsistency in disclosure requirements. That is, mutual funds with a readily determinable fair value would provide the NAV practical expedient disclosures and other investments with a readily</td>
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all investments that transact with investors at NAV per share will align the disclosure requirements for mutual funds and structures similar to mutual funds.

determinable fair value would provide the fair value measurement disclosures, which could confuse investors.
• This alternative would lead to a change in practice for entities that invest in mutual funds, although there are no known practice issues with the reporting and disclosure of mutual funds.
• While mutual funds present a NAV per share on their balance sheet and produce a daily NAV, purchases and sales of some mutual funds may occur at a premium or discount to the NAV per share, particularly for closed-end mutual funds. Consequently, those mutual funds that do not transact at NAV would continue to provide fair value measurement disclosures while other mutual funds would provide the NAV per share practical expedient disclosures.
• Many entities across many industries invest in mutual funds and consider them to have a readily determinable fair value. This alternative would cause those entities to evaluate the disclosures that are required for investments measured using the NAV per share practical expedient in paragraph 820-10-50-60A. This evaluation would present significant challenges for entities, with minimal benefit. While entities would need to evaluate the underlying documentation of their investments in mutual funds, entities ultimately would be providing disclosures similar to what they provide today with the fair value measurement disclosures. That is, mutual funds generally allow for daily liquidity and do not have redemption restrictions in place, but this alternative would require all entities to perform an analysis at each reporting period to provide the NAV per share practical expedient disclosures.

Develop characteristics of investments for which the NAV per share practical expedient would be useful, and permit investments meeting those characteristics to use the practical expedient

• This alternative would permit an entity that holds investments with certain characteristics to apply the NAV per share practical expedient.
• This alternative would reevaluate the criteria to qualify for the NAV per share practical expedient.

• Investments have many different structures, and developing a single set of characteristics of investments for which the NAV per share practical expedient provides the most useful information would be difficult. The current criteria in Topic 820 is well understood in
practice and investments that typically are measured using the NAV per share practical expedient are appropriate.
- The amended definition does not change the type of investments that can elect the NAV per share practical expedient. Therefore, it is unnecessary to develop new characteristics.

| Remove the amendments made to the definition in Update 2015-10 | For those entities that interpreted the pre-amended definition narrowly, removing the amendments would reduce the diversity in practice resulting from those amendments. | Removing the amendments would imply that structures similar to a mutual fund no longer are within the scope of the definition. Consequently, structures similar to a mutual fund would be treated differently than mutual funds, which is conceptually inconsistent. Retaining the amendments will increase the consistency in evaluating whether certain investments have a readily determinable fair value. |
| Provide transition guidance | Transition guidance would provide additional time for entities to evaluate the effect of the amended definition on its financial statements and to appropriately adopt the guidance. | The amended definition was effective upon the June 2015 issuance of Update 2015-10. Therefore, entities should have already adopted this guidance. It would be unclear how entities would follow new transition guidance for an accounting standard that was issued and effective more than 18 months ago. |
| Require the same disclosures for investments in structures similar to mutual funds as investments measured using the NAV per share practical expedient, regardless of whether those structures similar to mutual funds have a readily determinable fair value | Providing NAV per share practical expedient disclosures for investments in structures similar to a mutual fund would restore the practice used by those entities who had a narrow interpretation of the pre-amended definition. | Disclosures required for mutual funds and structures similar to mutual funds would be different. Different disclosure requirements for similar investments would be confusing and misleading to investors. |
| Remove references to limited partnership and venture capital entity from the amended definition. Replace those references with an example under which an investment structured similar to a mutual fund would have a readily determinable fair value (for example, a fund that determines NAV per share on a daily basis, NAV per share is available to the fund’s investors, and the fund allows daily transactions at NAV per share). | Providing a more relevant example of a structure similar to a mutual fund would assist entities in determining whether a readily determinable fair value exists. | Providing an example of this type might be viewed as a bright line or as a definition of the terms published and basis for current transactions. An example might illustrate the characteristics for one type of structure similar to a mutual fund, but it could diminish the importance of analyzing all structures similar to a mutual fund for a readily determinable fair value. |
| Remove employee benefit plans from the scope of the NAV per share practical expedient criteria | In this alternative, an employee benefit plan would not have to assess the criteria to determine eligibility for the NAV per share practical expedient. Instead, employee benefit plans would be | Employee benefit plans are not the only type of entity affected by the amended definition, and providing a scope exception for employee benefit plans would not solve the |
permitted to continue to measure certain investments using the NAV per share practical expedient even if those investments do not meet the amended definition of *readily determinable fair value*, which would reduce the diversity in practice. 

| Establish Master Glossary definitions for the terms published and basis for current transactions | • Would improve the clarity of the amended definition of *readily determinable fair value* and remove some of the uncertainty in determining whether a structure similar to a mutual fund has a readily determinable fair value. | • Defining those terms could lead to prescriptive guidance, which would create bright lines and eliminate an entity’s ability to exercise professional judgment. 
• It could take a significant amount of time and resources to create definitions and it could lead to unintended consequences with other Topics in the Codification under which those terms are used. |

**Board Decisions and Basis for Decisions**

30. On March 1, 2017, the Board met to discuss the issues raised and whether a project about the Master Glossary definition of *readily determinable fair value* should be added to its agenda. The following decisions were made at that Board meeting:

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

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

31. 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 amended definition was intended to assist certain entities in determining 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.

32. However, the Board recognizes that the language from Question 5 of the Statement 115 Implementation Guide that was inserted into the amended definition of readily determinable fair value in Update 2015-10, 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 to mean that all limited partnerships and venture capital entities would be considered to have a readily determinable fair value. However, that 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.

33. At its March 1, 2017 Board meeting, the Board decided to retain the parenthetical “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). 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 Update 2016-01 when those amendments become effective.

34. 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 amended definition could have implications on a decision about which set of disclosures may be used for certain investments (that is, fair value measurement disclosures or NAV per share practical expedient disclosures), some Board members concluded that users of the financial statements would not be misled when provided with either set of disclosures.
Appendix A: Measurement Principles from Topic 946, Financial Services—Investment Companies

946-10-15-2 The accounting principles discussed in this Topic apply to all investment companies. An investment company as discussed in this Topic is an entity that meets the assessment described in paragraphs 946-10-15-4 through 15-9.

946-10-15-3 The guidance in this Topic does not apply to real estate investment trusts.

946-10-15-4 An entity regulated under the Investment Company Act of 1940 is an investment company under this Topic.

946-10-15-5 An entity that is not regulated under the Investment Company Act of 1940 shall assess all the characteristics of an investment company in paragraphs 946-10-15-6 through 15-7 to determine whether it is an investment company. The entity shall consider its purpose and design when making that assessment.

946-10-15-6 An investment company has the following fundamental characteristics:

a. It is an entity that does both of the following:
   1. Obtains funds from one or more investors and provides the investor(s) with investment management services
   2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.

b. The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.

946-10-15-7 An investment company also has the following typical characteristics:

a. It has more than one investment.

b. It has more than one investor.

c. It has investors that are not related parties of the parent (if there is a parent) or the investment manager.

d. It has ownership interests in the form of equity or partnership interests.

e. It manages substantially all of its investments on a fair value basis.

946-10-15-8 To be an investment company, an entity shall possess the fundamental characteristics in paragraph 946-10-15-6. Typically, an investment company also has all of the characteristics in the preceding paragraph. However, the absence of one or more of those typical characteristics does not necessarily preclude an entity from being an investment company. If an entity does not possess one or more of the typical characteristics, it shall apply judgment and determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company.
Appendix B: Net Asset Value Per Share Practical Expedition Disclosures

820-10-50-6A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 and that are measured using the practical expedient in paragraph 820-10-35-59 on a recurring or nonrecurring basis during the period, a reporting entity shall disclose information that helps users of its financial statements to understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, a reporting entity shall disclose, at a minimum, the following information for each class of investment:

a. The fair value measurement (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class at the reporting date and a description of the significant investment strategies of the investee(s) in the class.

b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity’s estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.

c. The amount of the reporting entity’s unfunded commitments related to investments in the class.

d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days’ notice).

e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity’s measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.

f. Any other significant restriction on the ability to sell investments in the class at the measurement date.

g. Subparagraph superseded by Accounting Standards Update No. 2015-07.

h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).
Appendix C: Fair Value Measurement Disclosures

820-10-50-2 To meet the objectives in paragraph 820-10-50-1, a reporting entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 820-10-50-2B for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Topic) in the statement of financial position after initial recognition:

a. For recurring fair value measurements, the fair value measurement at the end of the reporting period, and for nonrecurring fair value measurements, the fair value measurement at the relevant measurement date and the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position at the end of each reporting period. Nonrecurring fair value measurements of assets or liabilities are those that other Topics require or permit in the statement of financial position in particular circumstances (for example, when a reporting entity measures a long-lived asset or disposal group classified as held for sale at fair value less costs to sell in accordance with Topic 360 because the asset’s fair value less costs to sell is lower than its carrying amount). For nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, a reporting entity shall clearly indicate that the fair value information presented is not as of the period’s end as well as the date or period that the measurement was taken.

b. For recurring and nonrecurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).
   1. Subparagraph superseded by Accounting Standards Update No. 2011-04
   2. Subparagraph superseded by Accounting Standards Update No. 2011-04
   3. Subparagraph superseded by Accounting Standards Update No. 2011-04

bb. For assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers, and the reporting entity’s policy for determining when transfers between levels are deemed to have occurred (see paragraph 820-10-50-2C). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
   1. Subparagraph superseded by Accounting Standards Update No. 2011-04
   2. Subparagraph superseded by Accounting Standards Update No. 2011-04
   3. Subparagraph superseded by Accounting Standards Update No. 2011-04

bbb. The information shall include:
   1. For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
   2. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.

c. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
   1. Total gains or losses for the period recognized in earnings (or changes in net assets), and the line item(s) in the statement of income (or activities) in which those gains or losses are recognized
1a. Total gains or losses for the period recognized in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognized

2. Purchases, sales, issues, and settlements (each of those types of changes disclosed separately)

3. The amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers, and the reporting entity’s policy for determining when transfers between levels are deemed to have occurred (see paragraph 820-10-50-2C). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
   i. Subparagraph superseded by Accounting Standards Update No. 2011-04
   ii. Subparagraph superseded by Accounting Standards Update No. 2011-04
   iii. Subparagraph superseded by Accounting Standards Update No. 2011-04

d. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) that is attributable to the change in unrealized gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in the statement of income (or activities) in which those unrealized gains or losses are recognized.

e. Subparagraph superseded by Accounting Standards Update No. 2011-04

f. For recurring and nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation processes used by the reporting entity (including, for example, how an entity decides its valuation policies and procedures and analyzes changes in fair value measurements from period to period). See paragraph 820-10-55-105 for further guidance.

g. For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a reporting entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with paragraph 820-10-50-2(bbb).

h. For recurring and nonrecurring fair value measurements, if the highest and best use of a nonfinancial asset differs from its current use, a reporting entity shall disclose that fact and why the nonfinancial asset is being used in a manner that differs from its highest and best use.