

Private Company Council July 11, 2017



# Definition of *Readily Determinable Fair Value*

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# Amended Definition—June 2015\*

## Readily Determinable Fair Value (added text is underlined)

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.

\* Amendments were effective upon issuance.

# Issues Raised by Stakeholders —July 2016

- **Scope of investments within the definition**
  - Condition (c) of the pre-amended definition was narrowly interpreted by some stakeholders to only include mutual funds
  - Some stakeholders asserted that the amended definition expanded the scope to include structures similar to a mutual fund. Therefore, certain investments may now have a readily determinable fair value (for example, common collective trusts)
  - Certain terms and examples used within the definition are unclear
    - *Limited partnership and venture capital entity*
    - *Published and basis for current transactions*
- **Disclosures**
  - Investments measured using net asset value (NAV) per share may be considered to have a readily determinable fair value after the amendment. Therefore, entities would not be permitted to use the NAV practical expedient
    - Affects required disclosures
    - Fair value measurement disclosures versus NAV practical expedient disclosures
- **Illustrative example in Topic 962 on Defined Contribution Pension Plans**
  - Example illustrates a stable value collective trust fund and a daily redemption frequency.
  - The daily redemption feature is a common characteristic of a mutual fund, but the stable value collective trust fund is measured using the NAV practical expedient.

# Board Meeting—March 2017

## Board Decisions

- The Board decided not to add a project on the Master Glossary Definition of *readily determinable fair value* to its agenda.
- The Board decided to amend only the illustrative example in paragraph 962-325-55-17 as part of the technical corrections and improvements project.

## Basis for Decisions

- 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 intended to aid in the determination of whether to measure an investment at cost or fair value.
  - Limited partnerships and venture capital entities were included at that time to ensure corporations did not hold (1) an investment in a mutual fund measured at *fair value* and (2) a similar investment in a venture capital entity measured at cost.
- The Board retained “(that is, a limited partnership or a venture capital entity)” in the amended definition
  - Removing references could signal to financial statement preparers that it is unnecessary to consider whether those investments meet condition (c) of the amended definition.
  - Some Board members were concerned that corporations might change their measurement for those investments from fair value to cost, only to change back to fair value when Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, is effective.
- The Board could not identify a pervasive measurement issue on the basis of outreach conducted with stakeholders.
- Some Board members concluded that investors would not be misled by either set of disclosures (that is, NAV per share practical expedient disclosures or fair value measurement disclosures).