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Financial Services

On-Call Accounting Alert

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FASB Issues Exposure Draft of Fair Value Measurement Guidance for Alternative Investments

Background

Since the issuance of FASB Statement No. 157, *Fair Value Measurements* ("SFAS 157"), certain constituents have raised questions regarding the application of the SFAS 157 to certain alternative investments, including private equity investments, investments in hedge funds and similar investment vehicles, and investments in partnerships which hold real estate, and whether a net asset value ("NAV") per share provided by a fund manager is representative of fair value. Additionally, practice issues often arise when estimating fair value of many of the aforesaid alternative investments due to liquidity, contractual restrictions, and other factors such as "clawback" provisions and unfunded capital commitments. In January 2009, the AICPA Accounting Standards Executive Committee and the Alternative Investments Task Force issued a draft Issues Paper to serve as nonauthoritative guidance to financial statement preparers on estimating fair value of alternative investments. The draft Issues Paper provided that a reporting entity must consider other factors, features, and attributes of the investment when estimating fair value in addition to NAV per share.

Summary of Proposed FASB Staff Position

On June 8, 2009 the FASB posted to FASB's website a proposed Staff Position FAS 157-g, *Estimating the Fair Value of Investment Companies That Have Calculated Net Asset value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies* (the "Proposed FSP"), for public comment, with a comment period ending on July 8, 2009. The Proposed FSP would amend SFAS 157 when applying its measurement guidance to alternative investments in entities that meet the definition of an investment company in paragraph 1.06 of the AICPA Audit and Accounting Guide for Investment Companies (the "Guide") and for which there is a per share NAV available (or its equivalent, for example, partners' capital per share for an investment in a partnership) and when NAV is computed in accordance with the Guide. Notwithstanding an entity concluding that NAV (unadjusted) is not representative of fair value as defined in SFAS 157, when estimating fair value of an alternative investment that meets the aforementioned criteria, the Proposed FSP would permit, as a practical expedient, an entity to use NAV without further adjustment.

The Proposed FSP would not apply to investments whose fair value is readily determinable as defined in paragraph 3 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115") (for example, investments in a registered, closed-end mutual fund whose fair value can be estimated based on quoted prices obtained from a securities exchange on which the fund shares trade). The Proposed FSP states that a transfer restriction on the investment in excess of one year shall not be considered in determining whether the investment's fair value is readily determinable in accordance with SFAS 115.

The Proposed FSP also provides for additional disclosures to be provided for interim and annual periods including:

- Fair value and description of significant investment strategies of the investees,
- Reporting entity's best estimate of the remaining life of a finite lived investment,
- Amount of reporting entity's unfunded commitments related to its investment,Terms and conditions upon which investor may redeem its investment,
- Circumstances prohibiting redemption of a redeemable investment and entity's best estimate of when restriction against redemption might lapse, and
- Other significant restrictions on the ability to redeem or sell investment at the measurement date.

The guidance with the Proposed FSP shall be applied immediately upon issuance, on a prospective basis, including for periods for which financial statements have not been issued. Comparative disclosures are not required for earlier periods presented at initial adoption. Also immediately below is a link to the Proposed FSP which can be found on the FASB's web site.

http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156228477

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