

Readily Determinable Fair Value

The Financial Accounting Standards Board (FASB) recently met to address questions about scope, measurement and appropriate disclosures related to the amended definition of readily determinable fair value (RDFV). Questions came from not-for-profits (NFP), employee benefit plans (EBP) and health care organizations about the interrelationship between two previously issued accounting standards updates (ASU):

- ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Effective for public business entities for fiscal years starting after December 15, 2015, and for all other entities for fiscal years starting after December 15, 2016.
- ASU 2015-10, *Technical Corrections and Improvements*. Effective for all entities for fiscal years starting after December 15, 2015.

The RDFV definition is used in several places in generally accepted accounting principles (GAAP), including in the assessment of:

- If an equity investment is required to be reported at fair value (Accounting Standards Codification (ASC) 320, *Investments—Debt and Equity Securities*, or ASC 958-320, *Not-for-Profit Entities: Investments*) (partially superseded by ASU 2016-01)
- An instrument's ability to qualify for the net asset value (NAV) per share practical expedient in ASC 820, *Fair Value Measurement*
- Exclusion from the fair value hierarchy disclosure requirements under ASU 2015-07

Generally, EBPs and investment companies are currently required to measure equity investments at fair value. A practical expedient permits NFPs and health care entities to measure certain equity investments at fair value using an NAV per share without first evaluating RDFV.

Technical Corrections

ASU 2015-10 updated the Master Glossary's RDFV definition (see underlined text below). The added language comes from the FAS 115 implementation guide and was inadvertently omitted from the 2009 codification process.

"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.**"

NAV Practical Expedient

ASU 2015-07 amended GAAP so that entities measuring investments using the NAV practical expedient no longer would have to categorize those investments in the fair value hierarchy.

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Instead, entities would disclose the amount of such investments as a reconciling item between the balance sheet and fair value hierarchy table ([see related BKD Thoughtware® article](#)). Reporting entities are generally permitted to use NAV per share without any adjustment to measure the fair value of an investment when:

- The investment does **not** have a readily determinable fair value and
- The investment is in an investment company within the scope of ASC 946, *Financial Services—Investment Companies* or in certain real estate funds meeting specific criteria

ASU 2015-07 only applies to investments measured at NAV as a practical expedient. For some investments, NAV is fair value, not a practical expedient for fair value. For example, if an entity has an investment in a mutual fund where the mutual fund's NAV per share is determined and **published** and the **basis for current transactions**, the investment is considered to have an RDFV and the reporting entity would continue to include the investment in the fair value hierarchy and make all required fair value disclosures. However, if NAV is communicated to the investor but is not publicly available, NAV may be used as a practical expedient for fair value. This is common for alternative investments such as limited partnerships or venture capital funds. In this case, the investment may be excluded from the fair value hierarchy under ASU 2015-07.

Scope

When the RDFV definition resided in FAS 115, the scope was well understood by companies subject to that guidance. Venture capital funds (covered by ASC 946) and EBP's not covered by FAS 115 have questioned if the amended definition expanded the scope of equity securities considered for RDFV evaluation.

Noting that a limited partnership or venture capital entity are not structures that typically are similar to a mutual fund, entities sought clarity on the interpretation of the undefined terms "published" and "basis for current transactions." Mutual fund pricing information is regularly and widely available online. Structures similar to a mutual fund, *e.g.*, common-collective trusts, may not provide pricing information with a similar frequency or level of accessibility as a mutual fund.

FASB members clarified it was not their intention to expand the scope of equity securities subject to RDFV evaluation. FASB decided to leave the amended definition unchanged and declined to provide additional guidance on published or basis for current transactions.

Measurement

Some questioned if the amended RDFV definition could affect the measurement of alternative investments, *e.g.*, a rare instance of an investment currently measured at cost that could now be determined to have a RDFV requiring fair value measurement. Stakeholders were unable to provide additional details about the types of investments that might have been measured at cost before the definition was amended.

FASB staff outreach that included representatives from several American Institute of CPAs industry expert panels (EBP, health care, investment company and NFP), large accounting firms and the Private Company Council were unable to point to the prevalence of measurement issues raised or specific examples that would result in a changed measurement. FASB board members concluded no further action was required.

Disclosure

Ambiguity about the scope of the investments in the amended definition leads to uncertainty about the appropriate disclosures. If an alternative investment has an RDFV and cannot be measured using the NAV practical expedient, the investment would be subject to the fair value measurement disclosures requirements and would have to be categorized within the fair value hierarchy.

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EBPs pointed to an illustrative example in ASC 962, *Plan Accounting—Defined Contribution Pension Plans*, which sends mixed signals about when a common-collective trust can elect the NAV practical expedient. In the example, the common-collective trust has a daily redemption frequency, which is a feature common to a mutual fund with a RDFV. Those stakeholders suggested that an amendment be made so it is clear that in this illustrative example the stable value collective trust fund has no RDFV.

FASB members noted the determination of whether a structure is similar to a mutual fund, fair value per unit is published and fair value is a basis for current transactions will continue to require judgment. Companies should continue applying their accounting policies with respect to these determinations on a consistent basis. The subsequent reporting should follow the conclusions reached—either inclusion in the fair value hierarchy table or as a reconciling item between the balance sheet and fair value hierarchy table.

FASB decided only to amend the illustrative example in ASC 962 to alleviate disclosure concerns. The amendments would be in the next round of technical corrections.

For additional information, contact your BKD advisor.

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