

FASB Releases Exposure Draft to Amend Fair Value Measurement

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In an effort to create more uniformity in financial reporting, the Financial Accounting Standards Board (FASB) recently released an exposure draft on Proposed Accounting Standards Update, Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) (the Proposed Amendment).

Under current United States Generally Accepted Accounting Principles, investments, such as investments in other private investment companies, can be valued using the net asset value reported by the underlying company as a practical expedient if certain criteria are met. This valuation methodology has led to differing practices among entities, specifically in regards to the investment's classification within the fair value hierarchy. The difference in financial reporting between entities surrounds whether or not the investment can be redeemed at the net asset value within the near term and the reporting entity's definition of near term. Currently, there is no definitive definition of near term as it relates to Topic 820, which has led some entities to classify certain investments as Level 2 investments in the fair value hierarchy, while other entities with similar circumstances have classified the investments as Level 3.

The Proposed Amendment attempts to simplify the reporting process, as well as create consistency among reporting entities. Under the Proposed Amendment, entities who value their investments using a practical expedient would no longer be required to include those investments within the fair value hierarchy disclosure, eliminating the differences in reporting approaches. Entities, however, would still be required to disclose information on their investments, which are valued using a practical expedient, including items such as:

- Significant investment strategies
- A general description regarding redemption terms
- Unfunded commitments as of the financial reporting date

The FASB is currently seeking comments regarding the Proposed Amendment and has not issued a proposed effective date.

For further information, visit the FASB's website by [clicking here](#).



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