

SEC Proposes Regulations for Determining Fair Value of Securities Held by Investment Companies

The Securities and Exchange Commission recently provided a long-promised and needed update, in the form of a proposed rule, to guidance on determining the fair value of securities held by registered investment companies. Although the Investment Company Act of 1940 tasks the boards of directors of these funds with determining in good faith the fair value of securities for which market quotations are not readily available, the proposed rule would permit fund boards to assign responsibility for determining the fair value of all, or a portion, of these securities to the fund's investment advisers (including any sub-advisers). The proposed rule would also require written policies and procedures for determining fair values, which must address the following:

- Assessment and management of valuation risks
- Selection and application of fair value methodologies
- Periodic testing of such methodologies
- Oversight of pricing service providers

Finally, the proposed rule would define when market quotations are "readily available" using terminology from Topic 820 of the FASB Accounting Standards Codification and thus align the proposed rule with accounting standards for determining fair value. In this [update](#), we provide an overview of the proposed rules and the implications for trustees, directors and advisers.

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