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# FASB eliminates disclosures for fund-of-funds, hedge funds and other entities that invest in funds

The Financial Accounting Standards Board (FASB) recently published ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance specifically clarifies how investments valued using the Net Asset Value (NAV) practical expedient within the fair value hierarchy should be classified.

The Accounting Standards Update (ASU) was issued in order to address diversity in practice. The amended standard's key provision exempts investments measured using the NAV practical expedient as defined in ASC 820, *fair value measurement*, from categorisation within the fair value hierarchy and related disclosures.

**Differences between ASC 820 and ASU 2015-07 as of May 2015**

| Practice | Former approach under ASC 820 | Amended approach under ASU 2015-07 |
|---|---|---|
| **Fair value estimations** | Permitted entities to estimate the fair value of certain investments using NAV as a practical expedient. | The fair value method is unchanged. |
| **Disclosures** | Investments valued using NAV as a practical expedient were required to be categorised within the fair value hierarchy. | Exempts investments measured using NAV practical expedient from categorisation within the fair value hierarchy and related disclosures. |
| • Level 2 | Investments redeemable at the measurement date or in the near term are Level 2, but "near term" is not fully defined. | Categorisation under the fair value hierarchy is no longer applicable. |
| • Level 3 | If investments are never redeemable or not redeemable in the near term, entities must categorise them in Level 3. | Categorisation under the fair value hierarchy is no longer applicable. |
| • ASC 820-10-50-6A | Entities are required to separately disclose the information required under ASC 820-10-50-6A for investments measured using the NAV practical expedient. | Substantially unchanged. |
| **Reconciling items** | No reconciling item required. | Carrying amount of investments using the NAV practical expedient should be shown as a reconciling item between the total amount of investments categorised within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. |
| **Statement of cash flows exemption** | Entities could claim an exemption if all four criteria were met in accordance with ASC 230-10-15-4(c). ASC 230-10-15-4(c)(2) previously specified that substantially all of the entity's investments be carried at fair value and classified as Level 1 or Level 2 measurements. | The criteria under ASC 230-10-15-4 have been expanded to include investments valued using NAV as a practical expedient and are redeemable in the near term at all times. |
| **Pension plan assets** | Pension plan assets must be valued within the fair value hierarchy in the plan sponsor's financial statements. | Entities can value pension plan assets using the NAV practical expedient, and these assets should not be categorised within the fair value hierarchy in the plan sponsor's financial statements. |

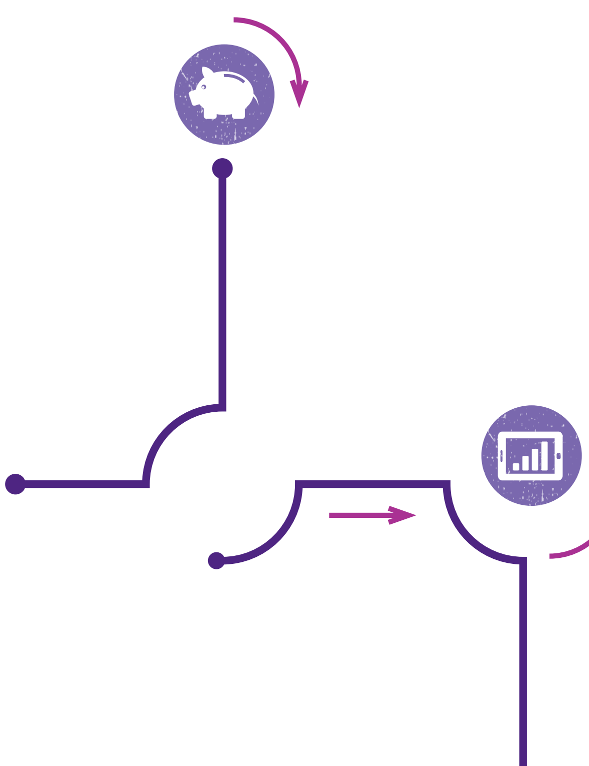
### Why ASC 820 was amended

Under ASC 820, entities are permitted to estimate the fair value of certain investments using NAV as a practical expedient. Investments were formerly categorised in three ways:

- **redeemable at the measurement date**: entities were required to categorise them in level 2 of the fair value hierarchy;
- **never redeemable**: entities were required to categorise them in level 3; and
- **redeemable after the measurement date**: investments were categorised in level 3 if the future redemption dates were not known or would not occur in the "near term."

ASC 820 did not specifically define the amount of time that could be used for valuing future redemption dates. An additional issue that developed was that some entities reclassified certain investments between levels 2 and 3 each period based on the relationship between the measurement date and next redemption date.

The guidance specifically clarifies how investments valued using the NAV practical expedient within the fair value hierarchy should be classified.



### Significant changes included in ASU 2015-07

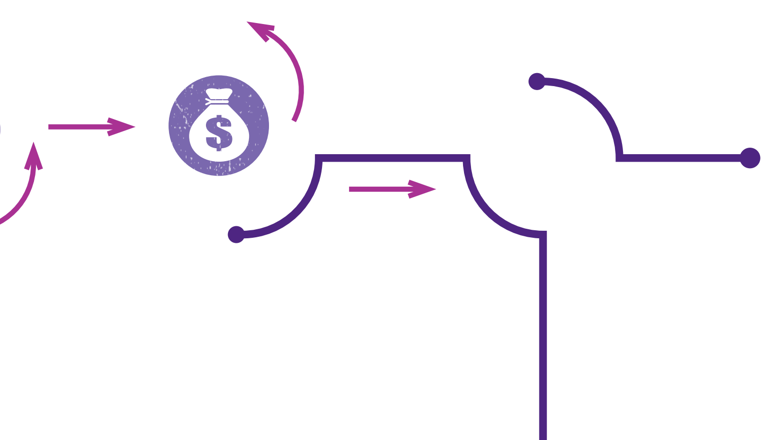
ASU 2015-07 addresses the issues with ASC 820 and removes the requirement to categorise all investments within the fair value hierarchy for which fair value is measured using NAV as a practical expedient. Instead, entities are required to separately disclose the information required under ASC 820-10-50-6A for assets measured using the NAV practical expedient. Entities are also required to show the carrying amount of investments measured using the NAV practical expedient as a reconciling item between the total amount of investments categorised within the fair value hierarchy and total investments measured at fair value on the face of the financial statements.

ASU 2015-07 also amends two other pieces of guidance:

- **ASC 230-10-15-4, *statement of cash flows***, is amended so that an investment company is exempt from presenting a statement of cash flows when substantially all of its investments are measured at Level 1 or Level 2 of the fair value hierarchy or using the NAV practical expedient, and redeemable in the near term at all times; and
- **ASC 715, *compensation-retirement benefits***, states that entities can value pension plan assets using the NAV practical expedient and such investments should not be categorised within the fair value hierarchy in the plan sponsor's financial statements.

The guidance requires retrospective application to all periods presented and is effective for public entities after 15 December 2015. Non-public entities will have an additional year. Early adoption is permitted.

We recommend early adoption, which can save time on year-end audits.



## Financial statement example: assets measured at fair value

For assets and liabilities measured at fair value at the reporting date, quantitative disclosures about the fair value measurements for each class of assets and liabilities at the end of the reporting period are required. Sufficient information must be provided to permit reconciliation of the fair value of assets categorised within the fair value hierarchy to the amounts presented in the statement of financial position. At a minimum, a reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2 (a) through (b) and paragraph 820-10-50-2B:

## Conclusion

Grant Thornton believes ASU 2015-07 addresses important concerns about the previous disclosure requirements when investments are valued using the NAV practical expedient. In eliminating certain disclosures for fund-of-funds, hedge funds, benefit plans and not-for-profit entities, it reflects the thinking of industry experts as put forth in numerous comment letters on the proposed amendments during the FASB's process. In addition, we recommend early adoption, which can save time on year-end audits.

### Fair value measurements at the end of the reporting period

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
|---|---|---|---|---|
| Common stock equities | $1,000,000 | $500,000 | — | $1,500,000 |
| Debt securities | — | $500,000 | $500,000 | $1,000,000 |
| Preferred stock | — | — | $1,500,000 | $1,500,000 |
| Hedge fund investments measured at NAV | — | — | — | $1,000,000 |
| Private equity fund investments measured at NAV | — | — | — | $1,000,000 |
| **TOTAL** | **$1,000,000** | **$1,000,000** | **$2,000,000** | **$6,000,000** |

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