



SEC's New Valuation Practice Framework

On 21 April 2020, the Securities and Exchange Commission (SEC) voted to propose a new Rule 2a-5 under the Investment Company Act of 1940 establishing a framework for funds' fair value determinations (Proposed Rule). The public comment period will remain open until July 21, 2020.

The rule is designed to establish requirements for determining the fair value in good faith of a fund's investments and would permit boards to assign the determination of fair value in good faith to the fund's investment adviser, subject to board oversight and certain other conditions. The rule would also define "readily available" market quotations for purposes of the Act.

Determining Fair Value in Good Faith

Proposed rule would require the performance of certain functions in order to determine fair value in good faith. These functions include, for example:



Periodically assessing and managing material risks associated with fair value determinations, including material conflicts of interest



Selecting, applying and testing fair value methodologies



Overseeing and evaluating any pricing services used



Adopting and implementing written policies and procedures addressing fair value determination and maintaining certain records

Who Performs Fair Value Determinations?

The proposed rule would permit a board to assign the determination of fair value in good faith to the fund's investment adviser, subject to additional conditions and oversight requirements. The adviser would be required to carry out the fair value determination functions described above, and additional requirements would apply, including:



Board oversight of the adviser



Periodic and prompt reporting



Clear specification of responsibilities and reasonable segregation of duties among the adviser's personnel



Keeping additional records relevant to the assignment for the adviser

The proposal would treat a market quotation as "readily available" only when that quotation is a quoted price (unadjusted) in active markets for identical investments that the fund can access at the measurement date (level 1 investment).

How KPMG can help to fulfil these requirements?

1

KPMG Financial Instruments (KFI) utilizes a centralized team of quantitative finance specialists and technology dedicated to performing comprehensive substantive fair value testing work on financial instruments as well as hedge accounting and VaR revision.

KFI is designed to determine independent fair values which are tested for their relevance and reliability and through establishing ranges of acceptable prices.

2

Periodically review of methodology

KFI performs a periodic review and test of valuation methodology for exchange-traded and OTC instruments to ensure that the fair value determination methods are reasonable and appropriate, and in line with market practice.

3

Expertise in a wide range of financial instruments

KFI provides the fair value determination services on a wide range of financial instruments, including exchange-traded instruments and over the counter (OTC) instruments.

For exchange-traded instruments, KFI covers the valuation for Equities, Funds, Debt instruments and Exchange-traded derivatives. For OTC instruments, both vanilla OTCs and non-vanilla are under KFI's scope.

4

KFI is continuing to assess the relevance and reliability of each pricing sources at each reporting date.

KFI also developed KPMG's hand-pricing procedures to provide support to the above methodology and help ascertain fair value for unquoted fixed income instruments.

5

Global Professional Services Firm

As a Global Professional Services Firm, KPMG provides timely and relevant support in areas such as forensics, tax, information risk management and valuations. Our highly experienced professionals can assist in the management of diverse areas such as risk monitoring, assessment and adequacy of internal controls around pricing and fraud prevention.

6

KFI documents material differences in their concluding working papers including the respective appendix, providing documentation about an opinion of the nature of such differences.

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