
Q&A Section 2220

Long-Term Investments

[Sections 2220.18–.28](#) are intended to assist reporting entities when implementing the provisions of FASB ASC 820, *Fair Value Measurement*, to estimate the fair value of their investments in certain entities that calculate net asset value. [Sections 2220.18–.28](#) apply to investments that are required to be measured and reported at fair value and are within the scope of paragraphs 4–5 of FASB ASC 820-10-15.

.28 Definition of *Readily Determinable Fair Value* and Its Interaction With the NAV Practical Expedient

Inquiry—What is *readily determinable fair value* and how does it interact with the NAV practical expedient?

Reply—FASB ASC Master Glossary defines *readily determinable fair value* as follows:

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.

This definition reflects the amendments made by FASB ASU No. 2015-10, *Technical Corrections and Improvements*, to condition (c). Whether an equity security has a readily determinable fair value (RDFV) in accordance with condition (c) is a facts and circumstances determination and requires judgment. Following these amendments, stakeholders questioned whether certain investments (such as common collective trusts

and pooled separate accounts) meet condition (c) and, therefore, would be considered to have RDFV.

The conclusion reached regarding RDFV is important because it determines whether an investment is eligible to estimate fair value using the NAV practical expedient as permitted by FASB ASC 820-10-35-59. FASB ASC 820-10-15-4 indicates that the NAV practical expedient in FASB ASC 820-10-35-59 is available only if both of the following criteria are met:

- a. The investment does not have a readily determinable fair value.
- b. The investment is in an investment company within the scope of FASB ASC 946 or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in FASB ASC 946.

Therefore, if an investment has RDFV, it cannot be measured using the NAV practical expedient and would be subject to the fair value measurement disclosures required by FASB ASC 820-10-50-2, including the requirement to categorize the investment within the fair value hierarchy. In contrast, an investment whose fair value is measured using the NAV practical expedient should not be categorized within the fair value hierarchy and would be subject to the disclosures required by FASB ASC 820-10-50-6A (the disclosure requirements in FASB ASC 820-10-50-2 do not apply to that investment.)

FASB discussed questions raised in connection with condition (c) of the definition of RDFV and indicated the following:¹

The Board could not identify a pervasive measurement issue on the basis of outreach conducted with stakeholders. While the Board acknowledged that the interpretation of the Master Glossary definition of readily determinable fair value could have implications on which set of disclosures may be used for certain investments (that is, fair value measurement disclosures or net asset value per share practical expedient disclosures), some Board members concluded that users of the financial statements would not be misled when provided either set of disclosures. Therefore, the Board would encourage entities to provide the disclosures that are consistent with the conclusions previously reached on the measurement of the investment.

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¹ For further information, see the Minutes of March 1, 2017, FASB meeting, which are available on the FASB website.