IDC Independent Directors Council
Promoting Excellence in Fund Governance

IDC Commends SEC’s Fair Valuation Framework and Recommends Modifications to Prescriptive Elements

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Washington, DC; July 16, 2020—The fair valuation proposal issued by the Securities and Exchange Commission (SEC) provides welcome clarity on the oversight role of fund directors, said the Independent Directors Council (IDC) in a comment letter filed today.

The Investment Company Act of 1940 requires fund boards to determine in good faith the fair value of securities without readily available market quotations. Consistent with Commission guidance over the years, practices have evolved, with directors relying on advisers to perform day-to-day valuation functions under the oversight of the board.

“We applaud the SEC for developing a modernized regulatory framework,” said IDC Managing Director Thomas Kim. “Giving fund boards the option to assign the determination of fair value to investment advisers, while affirming directors’ oversight role, will continue to promote sound valuation practices consistent with the interests of funds and their shareholders. At the same time, we urge the Commission to modify the proposal’s prescriptive, one-size-fits-all elements that would diminish the benefits of the modernized framework.”

IDC’s letter, which reflects the expertise and perspectives of independent directors on its Governing Council, recommends the following modifications to the proposed rule:

- frame the fair valuation rule as a safe harbor (pages 6–7);
- modify the board reporting requirements to promote more efficient and effective board oversight (pages 7–9);
- clarify the appropriate oversight role of fund boards (pages 9–10);
- modify the rule to better reflect the role of pricing services (pages 10–11);
- allow fund boards to assign fair value determinations to the fund administrator, in addition to an investment adviser of the fund (page 12); and
- extend the compliance period to 18 months (page 12).

IDC’s recommendations would preserve the robust oversight role of fund boards, while providing a durable framework for fair valuation that can stand the test of time.