Valuation Guidance Frequently Asked Questions

The staff of the Division of Investment Management has prepared the following responses to questions related to the valuation guidance for all mutual funds provided in the release adopting money market fund reforms in July 2014, and expects to update this document from time to time to include responses to additional questions. Any updates will include appropriate references to dates of new or modified questions and answers. These responses represent the views of the staff of the Division of Investment Management. They are not a rule, regulation, or statement of the Commission, and the Commission has neither approved nor disapproved these FAQs or the interpretive answers to these FAQs. The 2014 money market fund reform adopting release ("adopting release") is available at: http://www.sec.gov/rules/final/2014/33-9616.pdf and the valuation discussion begins at page 47812 of the release.

Valuation

1. Q. The Adopting Release provided additional guidance regarding the use of evaluated prices. Under this guidance, what are a mutual fund's board of directors' responsibilities when determining whether an evaluated price provided by a pricing service, or some other price, constitutes a fair value for a fund's portfolio security?

A. The staff believes that the guidance provided in the Adopting Release was not intended to change the general nature of the board's responsibility to oversee the process of determining whether an evaluated price provided by a pricing service, or some other price, constitutes a fair value for a fund's portfolio security or limit a board's ability to appropriately appoint others to assist in its duties. In the Adopting Release, the Commission stated that a fund's board of directors, before deciding to use evaluated prices from a pricing service to assist it in determining the fair values of the fund's portfolio securities, may want to consider the inputs, methods, models, and assumptions used by the pricing service to determine its evaluated prices, and how those inputs, methods, models, and assumptions are affected (if at all) as market conditions change. The Commission further noted that in choosing a particular pricing service, a fund's board may want to assess, among other things, the quality of the evaluated prices provided by the service and the extent to which the service determines its evaluated prices as close as possible to the time as of which the fund calculates its NAV.

The Commission also stated in the Adopting Release that a fund's board of directors has a non-delegable responsibility to determine whether an evaluated price provided by a pricing service, or some other price, constitutes a fair value for a fund's portfolio security. The Commission noted, however, that although a fund's directors cannot delegate their statutory duty to determine the fair value of fund portfolio securities for which market quotations are not readily available, the board may appoint others, such as the fund's investment adviser or a valuation committee, to assist the board in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the directors. Accordingly, taken together, the staff believes that a fund's board of directors' may delegate to its appointee, subject to adequate oversight, specific responsibilities intended to assist it in implementing the fund's valuation policies and procedures, including its due diligence of pricing services (including, for example, the considerations noted above). However, as the Commission has said, it is incumbent upon the fund's board to satisfy themselves that all appropriate factors relevant to the fair value of securities for which market quotations are not readily available have been considered and to determine the method for determining the fair value of each such security

2. Q. In the Adopting Release, the Commission stated its belief that a fund may only use the amortized cost method to value a portfolio security with a remaining maturity of 60 days or less when it can reasonably conclude, *at each time* it makes a valuation determination, that the amortized cost value is *approximately the same* as the fair value of the security valued without the use of amortized cost. Does this mean that funds using amortized cost to value their portfolio securities must, in most cases, calculate their shadow prices daily?

A. No. The staff believes that a fund should, however, have policies and procedures in place to allow the fund to reasonably conclude that a portfolio security's amortized cost (when used) is approximately the same as the security's fair value using market-based factors. A fund's procedures could include a description of the market-based factors it considers in making a fair value determination (*e.g.*, existing credit, interest rate, liquidity, and issuer-specific conditions), as well as how such factors are reviewed and monitored, each time a valuation determination is made. Associated issues are also discussed in questions 8 and 9 of the money market fund reform guidance FAQ.