FAIR VALUE MEASUREMENT BEST PRACTICES FOR IMPLEMENTATION UNDER ASC 820: VENTURE CAPITAL

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Dear Clients and Friends:

We are pleased to present this guide on the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820"). This guide represents a practical approach to implementing and complying with the requirements of ASC 820 and fair value initiatives. Our intention is to clarify these requirements and we are confident that you will find this paper informative and helpful; however, the application of fair value remains an art, not a science.

As a leading international professional services firm, Richey May & Co. is proud of our association with the alternative investment community. The U.S. Securities and Exchange Commission and the Public Company Accounting Oversight Board both emphasize management's responsibility in fair value measurements, relying on both quotes from third-party pricing services and broker-dealers, and also for the implementation, documentation, and disclosure of valuation processes and procedures. Richey May takes this responsibility seriously. Such transparency is even more critical as asset flows from institutional investors allow a greater portion of Americans to gain access to the alternative investment industry. The FASB and its requirements have tremendous relevance to the financial services industry, and ASC 820 offers a framework for comparability and consistency that promotes best practices in the global markets across our industry.

If you have any questions while reading this guide or regarding ASC 820, please reach out to Steve Vlasak or a Richey May professional.

The Richey May & Co. Alternative Investments Team

Disclosure

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Fair Value Measurement Best Practices for Implementation Under ASC 820: Venture Capital

Overview

Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC" or the "Codification") Topic 820, Fair Value Measurement ("ASC 820") is the sole source for authoritative guidance on how entities should measure and disclose fair value in their financial statements under U.S. generally accepted accounting principles ("U.S. GAAP"). ASC 820 is intended to result in more useful and accurate financial statements and in greater comparability in the financial statements of entities that operate in the global markets.

This guide was written with the intention of aiding venture capitalists in fair valuation of their fund's investments and in the presentation of these investments within their fund's financial statements in accordance with ASC 820, as well as to cover best practices and share answers to frequently asked questions

Definition of Fair Value

Fair Value Measurement establishes a framework for measuring fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The transaction to sell an asset or transfer a liability is a hypothetical transaction at the measurement date considered from the perspective of a market participant that holds the asset or owes the liability.

Fair Valuation of Portfolio Companies

Last Round of Financing (<12 Months)

The fund's initial purchase price (excluding transaction costs) of a portfolio company is typically the best estimate of fair value at inception. When evidence supports a change, then adjustments are made to reflect expected exit value in the investment's principal market under current market conditions. A principal market is the market with the greatest volume or level activity for the asset or liability. The market where a fund normally enters into transactions is presumed to be the principal market unless there is evidence to the contrary.

As a portfolio company undergoes a new round of financing, fund management will usually adjust the carrying value using the price from the last round of financing. When considering whether the transaction price from a new round of financing is a suitable input for fair value measurement, the following factors should be taken into account:

- Attributes and characteristics of the transaction
- Complexity of the capital structure
- Proximity to reporting date
- Extent of participation of additional third-party investors in the round of financing
- Any changes in the portfolio company in the intervening period between transaction date and reporting date

There are some factors, as listed below, that may signal to fund management not to update the carrying value to the last round of financing as these factors suggest the last round of financing does not represent true fair value.

- Purchasers only include existing investors (inside round)
- Financing was not heavily negotiated, investors participated pro-rata
- Financing amount is relatively small compared to previous financings

If fund management decides to use the last round of financing, it is usually an appropriate measure of fair value of the portfolio company for up to a year if no material changes in the underlying company's operations or environment have occurred. To keep abreast of these changes, it is advised that fund management review investments held by the fund on a quarterly basis.

As more time passes from the date of purchase, the more consideration fund management has to give to the portfolio company valuation. Factors to consider are similar to those evaluated during a fund's due diligence of a portfolio company before investment, including review of the portfolio company's financial statements

Type	Factors for Consideration
Market	Industry environment and trends, product portfolio, market identification and position, core competency and differentiation, competitive advantages, barriers to entry, threats or opportunities, new or emerging technologies, geographic coverage and country risk, customer concentration, customer perception and demand, number of customers, suppliers
Execution	Economic environment, operational effectiveness, lean manufacturing, quality, working capital efficiency, corporate structure, onshore/offshore production, production capacity, technological feasibility, IPO considerations, acquisition opportunities, sale strategy
Financial	Revenue growth, gross margin, IRR, capital availability and expenditures (cash burn/ runway), leverage, synergies, EBITDA margins, hedging, taxes, litigation
Leadership	Executive management and their track records, corporate culture, long-term strategic plan
Investment	Rights and preferences, level of influence, board representation, information rights, liquidity, leverage and investment position in capital structure, investor mix, put or call provisions, prepayment risk, covenants, dividends, performance risk, financial ratios, milestone analysis: how the company is tracking against its financial and non-financial metrics (Ex. number of users, clicks or page views)

and board presentations. Fund management must consider the portfolio company's historical data, ongoing development, and projections for upcoming years. Above is a chart of factors for consideration.

Questions fund management may ask during review of the valuation:

- Is the entity performing in accordance with its business plan? If there is successful execution, the portfolio company value could be higher.
- Have any significant value events occurred since last round of financing that could impact capital availability, such as obtaining regulatory approval, delivering proof of concept or prototype, or large movements in the stock market?
- Does the entity need additional financing to survive until a successful exit event? Is the entity attempting to raise additional financing as of the measurement date?
- Is the company's cash burn rapidly deteriorating? This may be a concern if the company engages in high capital expenditures to sustain growth without increasing revenues. Conversely, reduction in cash burn while the company is experiencing revenue growth can indicate the company is achieving economies of scale and is on a solid path to profitability.

Last Round of Financing (>12 Months)

When 12 months or more have passed without a third-party transaction that provides evidence of a new fair market value, the valuation becomes stale. In this case, fund management may keep the valuation as is if no material changes in the portfolio company's internal and external environment have occurred or utilize a valuation model or combination of models to support fair value.

If fund management leaves the valuation as is, it should document in detail its analysis and conclusion and address why valuation models were not considered in the fair valuation of the portfolio company.

Valuation Approaches

If fund management decides to use a valuation model, it can either engage a third-party specialist or develop the valuation in-house. If doing it internally, fund management must consider the different approaches and make significant assumptions.

Fund management may use more than one valuation approach. In some instances, management may give different weights to the valuation approaches it utilizes depending on the outcome of one instance over another or depending on what management believes is closer to the actual value of the portfolio company. The values from different approaches are then multiplied by the weights and combined into one total fair value.

Market Approach – Recent financing transaction or market comparable models. Market comparable models utilize market multiples derived from a set of comparable public companies and/or comparable company M&A transactions. These multiples are chosen through an analysis of the performance and characteristics of each investment within a range of comparable companies or transactions in the observable marketplace. Once multiples are chosen, they are then multiplied by the portfolio company's EBITDA or revenue.

Income Approach - Future economic benefits are converted into present value via discounted cash flow (DCF) or expected present value. Inputs include annual projected cash flows for each investment through their respective investment horizons. This approach has significant forward-looking assumptions and estimates for most key inputs. As such, it is best used with portfolio companies that have established revenues.

Asset-Based Approach - Values an enterprise by calculating portfolio company's assets (tangible and intangible) net of liabilities (recorded and contingent). This approach focuses on historical information and is a good check on the market and income approaches. It is best used on portfolio companies in their earliest stages of development, prior to raising arm's-length financing, when there may be limited or no basis for using the other approaches.

Discounts and Premiums

When utilizing valuation models, fund management must consider the use of discounts and premiums dependent upon the characteristics of the individual investment and its respective marketplace. Discounts or premiums can be applied to valuations depending on level of control, marketability, and illiquidity.

Most common in valuation models is the discount for illiquidity. Illiquidity is the inability to quickly convert an asset into ready cash.

Marketability is different from liquidity as an investment can readily be sold at a price that reflects current market conditions in a market where trading is not active or where there are trading restrictions. Discounts for lack of marketability are rarely used as it is assumed that the investment is marketable when looked at from the perspective of the current investors as a whole, and that any lack of marketability is already factored in the valuation.

Control premiums and minority discounts are discouraged since all shareholders will participate in an exit. The outcome of a valuation for an investor will depend on the type of exit, their liquidity preferences and other contractual rights rather than on controlling or minority interest.

Additional Considerations

Early-Stage Investments

Early-stage investment is categorized by portfolio companies with minimal, if any, revenue. Therefore, the following applies:

- Do not use the income approach as revenues would be difficult to predict
- If using a market comparable model, utilize EBITDA multiples over revenue multiples
- Closely consider cash runway, which is cash on hand as of fiscal year-end divided by the monthly burn (year to date operating expenses/12 months). Without revenue and a small cash runway, the portfolio company may be facing going concern without an upcoming financing event. As such, valuation may have to be adjusted.

Fair Valuation of a Business in Going Concern

Any time a portfolio company is struggling, fund management should consider in its valuation analysis whether the investment requires a write-down. In the event a portfolio company is not meeting its investor expectations and is not receiving further financing, it is appropriate to write down the investment for any portion the fund cannot recoup or write it off completely. With any write-downs or write-offs, fund management is encouraged to provide a written analysis to its auditors and any letters (if available) from the portfolio company explaining the change in operations.

Fair Valuation of Expected Sale

When there is an expected sale in place, fund management must evaluate the likelihood of the pending transaction occurring at the stated price. If a term sheet is available, it is appropriate to mark the fair value to the expected price.

Best Practices

1. Set up a valuation policy for the fund
    a. Document how fair value of investments is determined. Differentiate between type of investment and/or specific scenario.
    b. Document the internal valuation process, differentiating it from the investment process.
        i. Who performs the research and creates the valuation of the portfolio company?
        ii. Who reviews the valuation? Is there a committee?
        iii. How often are valuations reviewed?
        iv. What information is being reviewed?
        v. What kind of decisions are being made during the review?
        vi. How many people must approve a motion?
    c. Review valuation policy on an annual basis to keep it up to date. Document any changes.
    d. Make sure the policy is consistent per investment. Note: changes in valuation technique or its application for a material investment of the fund is a significant occurrence that may require financial statement disclosure.

2. Write-up a valuation analysis of the portfolio company
    a. Review the portfolio company's current environment and operations, and whether it is meeting investor expectations
    b. Document changes in valuation of the portfolio company from prior year and why
    c. Describe inputs to models if any are used
    d. Provide conclusion of the fair valuation

3. Review industry resources for additional guidance on fair value such as the ones listed below
    a. Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies: Non-authoritative guide that illustrates leading practices in valuation of illiquid investments by investment companies in accordance with ASC 946 and ASC 820. It was released by the AICPA's PE/VC Task Force and Financial Reporting Executive Committee in August 2019.
    b. Alternative Investment Management Association, Guide to Sound Practices for the Valuation of Investments (2018): Provides sound practices for establishing appropriate controls and procedures around valuation of investments by alternative investment funds.

4. Meet with auditors to discuss valuations and walkthrough any models used, if applicable, before the audit begins

Fair Value Hierarchy

Use of valuation models to determine fair value is acceptable only when quoted prices representing orderly transactions in active markets are not available. The most reliable evidence of value comes from market prices, so valuation techniques must maximize use of relevant observable inputs and minimize use of unobservable inputs.

Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability in an orderly transaction. Unobservable inputs are defined as inputs for which market data is not available and that is developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs may be developed by the fund or third parties.

One of the most significant elements of ASC 820 is the use of a three-level fair value hierarchy for the classification of inputs in fair value measurement, which are described below.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. An example of Level 1 investments is exchange-traded securities.

Level 2 - Inputs other than quoted prices used to value Level 1 securities, such as quoted prices for identical assets and/or liabilities in markets that are inactive, quoted prices for similar assets and/or liabilities, private investments in public companies, or market inputs other than the directly observable quoted price. These "other market inputs" are often used in conjunction with valuation models and generally include interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and other market-corroborated inputs. An example of a Level 2 investment is digital assets.

Level 3 – Unobservable inputs, such as those used in valuation models. Most private investments fall in this category due to their illiquidity. Specific examples for private companies include EBITDA/REV multiple

ranges in market comparable models, WACCs in discounted cash flows, premiums, discounts, and probabilities assigned to various scenarios in scenario analysis.

Fair Value Disclosures

Fair value measurement disclosures help financial statement users to understand the nature and risks of the investments and whether the investments can be sold at amounts different from the reported value.

The following disclosure requirements include the adoption of amendments per ASU 2018-13 (effective for all entities with fiscal years and interim periods beginning after December 15, 2019).

For investments that are within the scope of this discussion and that are measured at fair value at the measurement date, a reporting entity should disclose at a minimum, the following information for each investment.

1. An accounting policy footnote regarding the fair value measurement policy of the reporting entity, including fair valuation hierarchy per ASC 820 and how the net risk exposures are measured. This should include a description of the valuation techniques and inputs used in the fair value measurement of investments categorized in Level 2 and 3. However, disclosure of valuation processes for Level 3 fair value measurements are not required.

2. A tabular presentation of the fair valuation hierarchy of investments at the reporting date classified into the fair value levels and practical expedient, if applicable.

3. In lieu of a tabular representation of the rollforward for Level 3 fair value measurement as of the reporting date, a nonpublic entity is required to disclose transfers in and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.

4. A tabular presentation of the quantitative information regarding the significant unobservable inputs used by the reporting entity to determine the fair value of Level 3 investments held as of the reporting date should be disclosed. The table may include the investment type, fair value, valuation technique used (for instance, discounted cash flows/market approach, etc.), unobservable input (like yield-to-maturity or EBITDA multiples) and the range (weighted average) of the unobservable input.

5. If there are investments held by the reporting entity as of the reporting date, that cannot be redeemed, then the reporting entity's estimate of the time during which the underlying assets are expected to be liquidated by the investees (if applicable). This should be disclosed for each class of investments which cannot be redeemed. Additional disclosures should include the amount of the reporting entity's unfunded commitments related to investments in the class and a general description of the terms and conditions upon which the investor may redeem investments in the class (e.g. quarterly redemption with 60 days notice).

6. If applicable, the reporting company should also disclose the circumstances in which an otherwise redeemable investment in the class, or a portion thereof, might not be redeemable (e.g. investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity should disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity should disclose that fact and how long the restriction has been in effect.

7. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of a reporting entity's assets and the date when restrictions from redemption might lapse only if the reporting entity has communicated the timing to the entity or announced the timing publicly.

Level 3 Considerations

1. Although ASU-2018-13 eliminates the requirement to disclose the policy related to the timing of transfers between levels in the fair value hierarchy, funds are still required to set and consistently follow a policy on the timing of transfer.

2. With regards to the disclosure modification under ASU 2018-13 for transfers into and out of Level 3 of the fair value hierarchy, and purchases and issues of Level 3 assets and liabilities, the reasons for transfers into or out of level 3 must also be disclosed.

3. Additionally, both public and non-public entities are required to disclose the quantitative information on significant Level 3 inputs in tabular format.

4. If a fund invests in a private investment company, which reports under IFRS, the practical expedient under ASC Topic 820 can be applied to measure the fair value of investments that report under IFRS or other accounting basis different from U.S. GAAP. The reporting entity is required to consider whether an adjustment to the net asset value of the investee entity is needed or not.

5. If a fund invests in a private investment company which has a portion of its investments held in a side-pocket, then the fair value level hierarchy designation for the investment in a private investment company may be divided between the general class or liquid portion of the investment and the side-pocket portion of the investment.

Frequently Asked Questions

Investments in Private Operating Companies

40. For an investment in a private operating company, how does a recent round of financing factor into the fair value inputs in arriving at fair value, as well as the level designation within the fair value hierarchy?

When determining fair value for its investment in a private operating company, a fund should consider (1) the timing and pricing of a recent round of financing, and (2) whether any material events occurred subsequent to the transaction that would impact the fair value measurement on the measurement date. Since capital structures of a private operating company can be complex, a full analysis of the contractual terms of a recent round of financing must be part of the fair value measurement process. Generally, private equity investments will be classified as Level 3.

ASC 820 encourages multiple valuation techniques when dealing with Level 3 investments. When using multiple valuation techniques, a fund's management may place greater weight on the price from the most recent round of financing over valuation techniques such as discounted cash flow projections, or a technique based on a multiple of revenues or EBITDA derived from market comparables, if such information is deemed to be the most relevant indicator of fair value. This can be particularly relevant for development stage entities which do not yet have an established history of operating performance.

41. Can a fund measure the fair value of an investment in a private operating company based on the initial cost as a proxy of fair value?

While the initial transaction cost of an investment is typically not fair value, to the extent the initial transaction cost of the investment approximates the price that a market participant would be willing to pay to acquire a substitute investment on the measurement date, such cost may be considered as a factor in the valuation of the investment. In making an assessment, management should consider whether any significant change has occurred between the initial transaction date and the measurement date that might have affected the value of the investment from the perspective of a market participant looking to acquire the investment on the measurement date. Generally, after some period of time, the initial transaction cost becomes less reliable as a suitable reference value in the fair value measurement of an investment.

If a return-on-investment analysis was prepared at inception, management should re-evaluate cash flow projections to determine whether the actual results for the period from inception through the measurement date reflect the initial estimates and to identify any significant changes that would require a valuation adjustment to the initial cost. Also, management should consider applying multiple valuation techniques, including a market and income approach, to determine whether the values estimated under different approaches corroborate the reference to initial cost as a suitable factor to consider in the measurement of fair value or whether other techniques provide more appropriate evidence of fair value from the perspective of a market participant on the measurement date.

42. Under ASC 820, can a fund value its investment in a private operating company based on a recent sale price in a related party transaction?

The price in a related party transaction may be used as an input in fair value measurement if there is evidence that the transaction was entered into at market terms ("arm's-length"), however management should ensure that fair value is based on the assumptions that market participants would use in pricing the asset or liability when acting in their economic best interest. When possible, management should corroborate the inputs from related party transactions with market data from transactions from independent parties.

43. For a private loan receivable, does ASC 820 require an adjustment to the "fair value" based on movements of interest rates for similar loans in the marketplace (even though the underlying credit of the borrower has not deteriorated)?

Yes. If the private loan receivable is a fixed rate or floating rate loan and interest rates for similar loans have moved, a market participant would factor that movement into the fair value of the private loan. This

poses challenges to funds that originate loans when their existing valuation policy is to generally carry loans at par unless there is a default or impairment (which would require a write down). ASC 820 requires that these funds look to the market to see what the current yields are for similar loans and adjust the carrying value of the loans to reflect market participant assumptions. Funds should also consider collateral values as part of the assumptions of expected recoveries for loans that are nonperforming.

44. A fund holds an investment in the common stock of a private operating company which recently closed a round of financing on its preferred stock. The fund values its common stock investment at fair value using a backsolve method that estimates the implied equity value of the investee entity based on the latest round of preferred financing. The fund then allocates the estimated equity value to each share class using an option pricing model that treats the common and preferred stock as a series of call options on the enterprise value. What should the fund consider to comply with the disclosure requirements of ASC 820 relating to inputs and valuation techniques for its common stock investment?

Under ASC 820, the fund's investment would qualify as a Level 3 investment in the fair value hierarchy. The fund would be required to disclose a description of the valuation technique and the significant inputs used in the valuation, which may include a description of the backsolve method (a market approach), the option pricing model (an income approach), and the related inputs. The fund would also be required to disclose quantitative information about the significant unobservable inputs used in the valuation. For instance, the fund may include a table that lists the significant inputs and values (or range of values) used in the option pricing model, such as the risk free rate, the estimated stock volatility and the estimated liquidation dates of each class of shares. The fund would not be required to disclose quantitative information on transaction-based inputs, such as the price of the preferred stock from the latest round of financing used in the backsolve method, since these inputs have not been developed by management.

45. A private equity fund has concluded that it is appropriate to record a contingent consideration from the sale of an investment in a private operating company at fair value. What is the appropriate level designation for the contingent consideration measured at fair value, and which inputs would typically be most significant in its valuation?

The valuation of a contingent consideration ("earn-out receivable") typically relies on unobservable inputs estimated by management, which would result in a Level 3 classification and in requiring the fund to provide additional quantitative disclosures of the significant unobservable inputs used in the fair value measurement. Certain earn-out receivables may be valued by applying a discount rate adjustment to contractual cash flows that are fixed in amount, pending the achievement of certain performance targets. In such case, the quantitative table of Level 3 inputs would typically include a disclosure of the discount rate (or range of rates) used in the valuation. The contract value of the cash flows would not need to be disclosed in the quantitative table of Level 3 inputs, as it would not qualify as an input developed by management. In other cases, an earn-out receivable may be valued using an expected present value technique, for instance when the amount of the expected cash flows is expressed as a multiple of performance measures such as EBITDA or gross revenues. In such case, in addition to the discount rate, the quantitative table of Level 3 inputs would typically include a disclosure of the EBITDA or revenue multiple (or range of multiples) used in the cash flow estimates. Ultimately, the disclosure of significant Level 3 inputs needs to be customized to reflect the specific characteristics of the valuation technique and inputs used in the valuation.

46. Is a fund required to include a disclosure of quantitative inputs for investments in private equity which are valued solely using the services of a third-party valuation expert?

The fund's management is responsible for the valuation of the fund's investments, which includes overseeing the work of valuation specialists used to assist in the valuation, and challenging the assumptions and inputs used. In addition, the fund is responsible for providing information regarding the investment to the valuation expert in order for the expert to have a sufficient understanding of the appropriate inputs and valuation approach to be used.

Essentially, the purpose of the quantitative input disclosure is to provide the financial statement users with meaningful information which can be compared

against the users' assumptions on valuation, as well as to provide comparability of the assumptions over successive periods. The decision to outsource the valuation function does not preclude the requirement to include meaningful disclosure of quantitative inputs within the financial statements.

47. A fund deems the latest round of financing to be representative of fair value for one of its private equity investments. The fund also performs a model-based valuation as an additional step to corroborate the reasonableness of the latest round of financing; however, it relied solely on the round of financing without adjustment for the valuation of its investment on the measurement date. Does the fund need to provide disclosure of the quantitative inputs used for the reasonableness test?

The disclosure of quantitative inputs should reflect the valuations based on internally developed inputs at the measurement date. While the fund considered the results of the model in evaluating the reasonableness of the valuation, ultimately, the valuation was fully weighted based on the price from the latest round of financing, which was not an input that was internally developed by the fund. The fund is not required to present disclosure of inputs used in the model as the result was not weighted into the final valuation.

Level 3 Considerations

Investments in Private Investment Companies

48. A fund invests in a private investment company which reports under IFRS. Can the fund measure its investment at fair value using the investee entity's reported net asset value as a practical expedient?

Under ASC 820, the practical expedient can still be applied to measure the fair value of investments that report under IFRS or other bases of accounting that differ from the provisions of ASC 946 Investment Companies under U.S. GAAP. The fund, however, is required to consider whether an adjustment to the net asset value of the investee entity is necessary. The objective of the adjustment is to estimate a net asset value for the investment that is calculated in a manner consistent with the measurement principles of ASC 946 as of the fund's measurement date. The adjustment would be considered a Level 3 input. If the adjustment has a significant impact on the valuation, it would result in the investment being classified as a Level 3 in the fair value hierarchy. In addition, the fund should include a quantitative disclosure of the adjustment value/percentage (or range of values/percentages for multiple investments) in the footnotes to its financial statements.

49. How does the probable sale of an investment in a private investment company for an amount other than NAV affect the fair value measurement of the investment and the use of NAV as a practical expedient?

Under ASC 820, a fund is not permitted to use NAV as a practical expedient when it is probable that the fund will sell an investment at an amount other than NAV. A sale is considered probable only if all of the following criteria have been met as of the reporting fund's measurement date:

- Management, having the authority to approve the action, commits to a plan to sell the investment.
- An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
- The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If it is probable at the measurement date that a fund will sell an investment, or a portion of an investment, at an amount different from NAV, the portion that the fund intends to sell should be valued according to other provisions of ASC 820. Other provisions of ASC 820 can include a market or income based valuation approach. The remaining portion of the investment that is not likely to be sold may be valued by using NAV as a practical expedient. However, if a fund enters into a plan to sell a group of investments, but the individual investments to be sold have not yet been identified, the individual investments will continue to qualify for the practical expedient.

For more information about Fair Value, or to see a sample valuation memo, please contact Steve Vlasak.

ABOUT RICHEY MAY & CO.

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Our team combines the dedicated expertise found in a national accounting firm with the hands-on approach to client service you'd expect from a boutique provider – a unique model that allows us to bring expert solutions and strategies to your specific business needs.

National Client Representation

We serve alternative investment clients that range in size from $1M to $4.2B. We work with funds utilizing a wide variety of strategies, including, but not limited to, the following: arbitrage, ABS, catastrophic bonds, convertible arbitrage, cryptocurrency, currency, day trading, derivative funds of funds, distressed debt, emerging markets, energy trading, event driven, fixed income, foreign currency, global macro, funds of funds, high yield, long/short, merger arbitrage, mortgage backed securities, real estate, reinsurance, risk arbitrage, situational and structured finance.

We Work with Several Entity Types

We assist investors in several types of funds with accounting and tax services. Our expert team can assist you at any stage of your business, from new entrants into the market to veteran investors looking for new growth opportunities.

Industry Services

Audits, reviews, compilations, agreed upon procedures and other assurance services
Initial fund structuring and consulting
Federal and state tax returns
Individual tax returns
Tax estimate
Valuation consulting
Surprise exams
Fund document reviews
Performance examinations
Management company, general partner tax returns
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