DOWNLOAD PDF 3. ASSET VALUATION II

Chapter 1 : Proposed Rule: S

What are 'Level 3 Assets' Level 3 assets are assets whose fair value cannot be determined by using observable inputs or measures, such as market prices or models. Level 3 assets are typically very.

An entity shall not be treated as a venture capital operating company at any time after the end of the distribution period. A 10 years from the date of the acquisition of the original venture capital investment to which the derivative investment relates, or B 30 months from the date on which the investment becomes a derivative investment. An annual valuation period, once established may not be changed except for good cause unrelated to a determination under this paragraph d or paragraph e. For purposes of determinations pursuant to this paragraph f , the value of any equity interests held by a person other than a benefit plan investor who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee direct or indirect with respect to such assets, or any affiliate of such a person, shall be disregarded. Notwithstanding any other provision of this section - 1 Except where the entity is an investment company registered under the Investment Company Act of , when a plan acquires or holds an interest in any of the following entities its assets include its investment and an undivided interest in each of the underlying assets of the entity: This paragraph h 3 does not apply, however, where all of the outstanding equity interests in an entity are qualifying employer securities described in section d 5 of the Act, owned by one or more eligible individual account plan s as defined in section d 3 of the Act maintained by the same employer, provided that substantially all of the participants in the plan s are, or have been, employed by the issuer of such securities or by members of a group of affiliated corporations as determined under section d 7 of the Act of which the issuer is a member. The principles of this section are illustrated by the following examples: T is engaged primarily in investing and reinvesting in precious metals on behalf of its shareholders, all of which are benefit plan investors. U has only one class of limited partnership interests. U is engaged in the business of investing and reinvesting in securities. Limited partnership interests in U are offered privately pursuant to an exemption from the registration requirements of the Securities Act of U is not an operating company because it is engaged primarily in the investment of capital. Thus, the percentage of the aggregate value of the limited partnership interests held by benefit plan investors in U for purposes of such a determination is approximately Therefore there is significant benefit plan investment in T. There is significant equity participation by benefit plan investors in V. V acquires equity positions in the companies in which it invests, and, in connection with these investments, V negotiates terms that give it the right to participate in or influence the management of those companies. Some of these investments are in publicly-offered securities and some are in securities acquired in private offerings. V is a venture capital operating company and therefore P has acquired its limited partnership investment, but has not acquired an interest in any of the underlying assets of V. Thus, none of the managers of V would be fiduciaries with respect to P solely by reason of its investment. In this situation, the mere fact that V does not participate in or influence the management of all its portfolio companies does not affect its characterization as a venture capital operating company. V invests in debt securities as well as equity securities of its portfolio companies. In some cases V makes debt investments in companies in which it also has an equity investment; in other cases V only invests in debt instruments of the portfolio company. V routinely consults with and advises the management of its portfolio companies. The properties acquired by W are subject to long-term leases under which substantially all management and maintenance activities with respect to the property are the responsibility of the lessee. W is not engaged in the management or development of real estate merely because it assumes the risks of ownership of income-producing real property, and W is not a real estate operating company. If there is significant equity participation in W by benefit plan investors, P will be considered to have acquired an undivided interest in each of the underlying assets of W. W retains independent contractors to manage the shopping center properties. These independent contractors negotiate individual leases, maintain the common areas and conduct maintenance activities with respect to the properties. W has the responsibility to supervise and the authority to terminate the independent contractors. W is a real estate operating company. The fact that

W does not have its own employees who engage in day-to-day management and development activities is only one factor in determining whether it is actively managing or developing real estate. There is significant equity participation in X by benefit plan investors. X lends a specified percentage of the cost of acquiring real property to a borrower who provides the remaining capital needed to make the acquisition. This loan is secured by a mortgage on the property. Under the terms of the loan, X is entitled to receive a fixed rate of interest payable out of the initial cash flow from the property and is also entitled to that portion of any additional cash flow which is equal to the percentage of the acquisition cost that is financed by its loan. Simultaneously with the making of the loan, the borrower also gives X an option to purchase an interest in the property for the original principal amount of the loan at the expiration of its initial term. The parties to the transaction contemplate that the option ordinarily will be exercised at the expiration of the loan term if the property has appreciated in value. X and the borrower also agree that, if the option is exercised, they will form a limited partnership to hold the property. X negotiates loan terms which give it rights to substantially influence, or to substantially participate in, the management of the property which is acquired with the proceeds of the loan. These loan terms give X significantly greater rights to participate in the management of the property than it would obtain under a conventional mortgage loan. In addition, under the terms of the loan, X and the borrower ratably share any capital expenditures relating to the property. X, in the ordinary course of its business, routinely exercises its management rights and frequently consults with and advises the borrower and the property manager. Under these facts, X is a real estate operating company. Since the value of the participation certificate relates solely to the debt instrument, that debt instrument is, under paragraph g , treated as the sole asset of a separate entity. In addition, the hypothetical entity is not an operating company because it is primarily engaged in the investment of capital i. These securities provide that dividends shall be paid solely out of earnings attributable to certain tracts of undeveloped land that are held by Y for investment. Under paragraph g , the property is treated as the sole asset of a separate entity. Thus, even though Y is an operating company , the hypothetical entity whose sole assets are the undeveloped tracts of land is not an operating company. Accordingly, P is considered to have acquired an undivided interest in the tracts of land held by Y. Thus, Y would be a fiduciary of P to the extent it exercises discretionary authority or control over such property. Under this arrangement, Z will provide the benefits to the participants and beneficiaries of P that are promised under the terms of the plan. Thus, persons with discretionary authority or control over the assets of Z would be fiduciaries of P. Except as a defense, this section shall not apply to investments in an entity in existence on March 13, , if no plan subject to title I of the Act or plan described in section e 1 of the Code other than a plan described in section g 2 or 3 acquires an interest in the entity from an issuer or underwriter at any time on or after March 13, except pursuant to a contract binding on the plan in effect on March 13, with an issuer or underwriter to acquire an interest in the entity. It is not guaranteed to be accurate or up-to-date, though we do refresh the database weekly. More limitations on accuracy are described at the GPO site.

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Chapter 2 : Level 3 Assets - What Does It Mean?

BREAKING DOWN 'Level 2 Assets' An example of a Level 2 asset is an interest rate swap, where the asset value can be determined based on the observed values for underlying interest rates and market.

Securities and Exchange Commission Action: The Commission is proposing to reposition certain schedule information currently required under Rule of Regulation S-X within a new Item c of Regulation S-K to specify the disclosures to be provided by registrants concerning changes in valuation and loss accrual accounts. The Commission also is proposing to add another new Item d of Regulation S-K to elicit certain information concerning tangible and intangible long-lived assets and related accumulated depreciation, depletion, and amortization. A new Item 8C also would be added to the recently revised Form F. The rule proposals are intended to provide investors with more transparent, better detailed disclosures concerning changes in valuation and loss accrual accounts and in the underlying accounting assumptions and more detailed information to assess the effects of useful lives assigned to long-lived assets. Comments should be received by April 17, Please send three copies of your comment letter to Jonathan G. Interested persons also may submit comments electronically at the following e-mail address: All comment letters should refer to File No. S; please include this file number in the subject line if you use e-mail. For Further Information, Contact: The Commission is proposing to reposition certain schedule information currently required under Rule of Regulation S-X 1 within a new Item c of Regulation S-K 2 to specify the disclosures concerning valuation and loss accrual accounts to be provided by registrants. The Commission also is proposing to add another new Item d of Regulation S-K 3 to elicit additional information concerning tangible and intangible long-lived assets and related accumulated depreciation, depletion, and amortization. The proposed addition of Item c is intended to provide investors with more transparent, better detailed disclosures concerning changes in valuation and loss accrual accounts and in the underlying accounting assumptions. Similarly, the proposed addition of Item d is intended to provide investors with more detailed information concerning the financial reporting effects of useful lives assigned to long-lived assets. Because of the repositioning of valuation and loss accrual account disclosure within proposed Item c , Schedule II of Rule Applicable to Commercial and Industrial Companies 4 and Schedule V of Rule Applicable to Insurance Companies 5 would be eliminated. Also due to the proposed repositioning, a new Item 8C of Form F 6 would be added to require presentation of supplementary financial information. Background Many participants in and observers of the financial reporting process, including the Commission, have noted an apparent increase in abusive "earnings management" by public companies. In response to such factors, the Commission has initiated a series of coordinated actions to address issues related to earnings management. A key element of this action plan addresses the problems caused by a lack of transparency in some aspects of financial reporting. Problems attributable to lack a transparency noted by observers of the financial reporting process include, but are not limited to: Proposed Rule Changes The proposed amendments would create a new Item c of Regulation S-K to clarify and expand the supplemental disclosure requirements concerning activity involving valuation and loss accrual accounts so as to improve the transparency of financial reporting by registrants. The schedule Schedule II is structured to show beginning and ending account balances as well as activity, including any adjustments, during the year for individually significant valuation and qualifying accounts and reserves. However, compliance with the schedule requirements appears to be mixed, possibly due to a lack of general agreement as to what constitutes a valuation or reserve account. Also, diversity in practice has resulted from varying approaches to combining individually insignificant account balances. Examples cited include an estimate of uncollectible amounts that reduces receivables to the amount expected to be collected, or a premium on a bond receivable that increases the receivable to its amortized cost or present value. Valuation accounts are part of the asset or liability to which they relate and are neither assets nor liabilities in their own right. As a result of this confusion, reporting by registrants about activity involving these accounts has been mixed, with certain registrants providing more complete disclosures than others in similar circumstances. To avoid future confusion, the Commission proposes to revise the supplemental disclosure requirements to refer

to the term "loss accrual" thereby appropriately focusing on accruals for loss contingencies. The list, which was extracted from the SEC reporting guidelines of certain major accounting firms, is suggestive rather than all-inclusive and includes the following accounts: Certain detailed disclosures about activity in a specific valuation and loss accrual account are required under existing generally accepted accounting principles GAAP. For example, disclosure of the net change in the valuation allowance recognized for deferred tax assets is required by Statement of Financial Accounting Standards No. To avoid redundancy, detailed information about activity in valuation and loss accrual accounts may be omitted if the same information is provided in the notes to financial statements. The proposed repositioning of disclosures about valuation and loss accrual account activity is intended to encourage registrants to focus on the need to provide a detailed narrative discussion about the assumptions underlying the recognition of a valuation or loss accrual account along with the nature of any changes in those assumptions requiring adjustment to the account balance. Experience has shown that the more free-writing style permitted to comply with Regulation S-K may be more conducive to detailed narrative explanation that better communicates the financial reporting effects of changes in facts and assumptions. Statement on Auditing Standards No. SAS 8, "Other Information in Documents Containing Audited Financial Statements," requires the auditor to read other information, such as the supplementary financial information about valuation and loan loss account activity, in a document containing audited financial statements and consider whether such information is materially inconsistent with information appearing in the financial statements. The Commission also is proposing to add a new Item d to provide information concerning property, plant, and equipment and related accumulated depreciation, depletion, and amortization. The proposed disclosure would be similar to the schedule information previously required under Rules and of Regulation S-X. Prior to , registrants were required to provide detailed schedules of property, plant, and equipment and related accumulated depreciation, depletion, and amortization in cases where the property, plant, and equipment account exceeded 25 percent of total assets. Activity disclosed through the schedules included additions, retirements, and other changes in each major fixed asset account. Since the issuance of Financial Reporting Release 44, financial analysts have advised the Commission staff that the rescission of the schedule requirements has resulted in a loss of useful information about depreciation methods, useful lives, and salvage values of long-lived assets. For example, APB Opinion 12 requires a general description of the method or the methods used in computing depreciation of major classes of fixed assets. APB Opinion 12 also permits accumulated depreciation balances to be shown in the aggregate. No disclosure is required of estimated salvage values. Financial statement users have expressed frustration due to an inability to recreate the detailed information about activity in specific fixed asset accounts that formerly was provided under Rules and of Regulation S-X. Experience has shown that compliance with the more general requirements imposed under APB Opinion 12 may not provide all detailed disclosures pertinent to an analysis of changes in fixed assets, and may have contributed to some lack of transparency in financial statements of public companies. Accordingly, the Commission is proposing to reinstate the informational requirements formerly called for under Rules and and to add disclosures about salvage values. The proposed disclosures would be required to support the account balances of any long-lived asset separately captioned on the balance sheet. The Commission staff has noted a similar lack of specificity in the requirements under GAAP for disclosures concerning intangible assets. Without additional data, users of financial information are unable to evaluate the impact on reported earnings of estimated useful lives assigned to intangible assets resulting from specific acquisitions. In circumstances where the account balance results from different business acquisitions with varying useful lives, the disclosure would need to show the amount of goodwill in the aggregate as well as the account balance of each component assigned a different estimated useful life. However, consistent with the proposed treatment of valuation and loss accrual account activity, detailed information about activity in a particular property, plant, equipment, and intangible asset and related accumulated depreciation, depletion, and amortization account may be omitted if the same information is provided to investors within the notes to financial statements. In summary, the Commission is proposing amendments to Regulation S-K to specify disclosures of valuation and loss accrual accounts and long-lived assets and related accumulated depreciation, depletion, and amortization in response to problems attributable

to a lack of transparency in financial reporting. The proposed disclosures are intended to provide sufficient analytical information so that changes in the amounts and activity in these accounts are transparent to investors. The Commission is proposing to amend Form F to include the substance of proposed Items c and d. Foreign private issuers, therefore, would be required to provide these disclosures. General Request for Comment The Commission is proposing these amendments to clarify and expand certain disclosures to be provided as supplementary financial information. If you would like to submit written comments on the proposals, to suggest additional changes, or to submit comments on other matters that might have an impact on the proposals, we encourage you to do so. Besides the specific questions being asked in this release, we also solicit comments on the usefulness of the proposals to security holders, issuers, and the marketplace at large. We would like comments from the point of view of both bidders and targets, as well as security holders and market professionals involved in the mergers and acquisitions area. We also solicit comments specifically addressing whether these proposed changes adequately provide information that is useful to the analysis of financial statements. We also seek comments about whether other amendments are appropriate for that purpose. The staff also seeks specific comments on the following elements of this rule proposal: Are there other specific loss accrual or valuation accounts that should be added to the list of accounts identified within proposed Item c? Should specific percentage tests be used to trigger specific account disclosures within the proposed rules? If so, what is an appropriate threshold? Should presentation of the proposed data be limited to the Form K? Should the disclosure requirements be restricted to those registrants that exceed a certain size or meet some other threshold? If so, what would be the appropriate threshold? Are there circumstances where registrants may appropriately exclude disclosure about loss accruals related to litigation because of concerns about confidentiality while still conforming with GAAP? If so, please describe such circumstances in detail. Should the disclosures concerning valuation and loss accrual account activity be required when interim financial statements are presented? Should the disclosures concerning changes in property, plant, equipment, and intangible assets and related accumulated depreciation, depletion, and amortization be required when interim financial statements are presented? Anyone can inspect and copy the comment letters in our public reference room at Fifth Street, N. We will post electronically submitted comment letters on our Internet Web Site www. The title of the affected information collection is "Supplementary Financial Information. Also, as discussed elsewhere in this release, small business issuers would not be impacted by the proposals. The likely respondents to the collection of information request include those currently filing Forms K, 10, F, and F Registrants not eligible for incorporation by reference filing under Forms S-4 and F-4 are required to present schedule information. The information typically would be collected once a year in the Form K and then incorporated by reference into other forms as appropriate. Based on a sample of Forms K filed by registrants currently presenting valuation and qualifying account and reserve disclosures under Schedule II, it is estimated that approximately 2, respondents would be required to include the disclosures proposed under Item c in their Form K filings. The staff has received input from a diversified, multi-divisional registrant estimating that the average burden hours to begin collecting the appropriate records and report the proposed disclosures about valuation and loss accrual account activity each year would be hours per registrant but that the annual, recurring burden would be only 17 hours per registrant. Extending the cost burden estimates to the approximately 2, registrants currently estimated to be filing valuation and qualifying account schedule data after initial start up burdens results in an estimated total recurring, annual burden of 49, hours. The same diversified, multi-divisional registrant also provided input concerning the estimated burden hours involved in beginning to comply with proposed Item d concerning changes in long-lived assets and related accumulated depreciation, depletion, and amortization. It is estimated that burden hours per registrant would be required initially to comply with the proposed requirements under Item d but that the annual recurring burden would be approximately only 35 hours per registrant. Assuming that approximately the same number of SEC registrants required to furnish valuation and loss accrual account activity also would be impacted by the proposed long-lived asset disclosures approximately 2, , the total recurring annual burden would approximate , hours. Preparing and disclosing the Supplementary Financial Information will be mandatory to the extent a registrant must file with the Commission audited annual financial statements in accordance with Regulation S-X, 17

CFR , and the registrant has had significant activity involving the information required by the proposed new items in Regulation S-K. The supplementary data will be public information. Pursuant to 44 U. Persons wishing to submit comments on the collection of information requirements should direct them to the Office of Management and Budget, Attention: The Office of Management and Budget is required to make a decision concerning the collection of information between 30 and 60 days after publication. Requests for materials submitted to OMB by the Commission with regard to this collection of information should be in writing, refer to File No. Cost-Benefit Analysis The new proposals are intended to benefit investors by providing a clearer picture of how registrants may be using valuation and loss accrual accounts and estimates of the useful lives and salvage values assigned to assets to impact the amounts reported in their financial statements. Analysts have suggested, and we agree, that shedding more sunlight on these areas will assist investors in analyzing these items and discourage inappropriate "earnings management," thus enhancing the protection of investors. We are unable to quantify this benefit. The new disclosures will require registrants to prepare two new disclosure items, one of which calls for information that essentially is being provided in an existing schedule. In addition, small business issuers under Regulation S-B and small issuers qualifying for the exemption under Regulation A are not required currently to provide this information and would not be impacted by the proposals. For the purposes of the PRA, we estimate that, after initial start up costs, the annual average hourly burden to comply with proposed Items c and d would be 52 hours.

Chapter 3 : IFRS 13 â€” Fair Value Measurement

FAS - Fair value accounting and Level 3 assets Jul 19, by Jawwad Farid in Master Class Statements of Financial Accounting Standards No. , Fair Value Measurements, commonly known as "FAS ", is an accounting standard issued in September by the Financial Accounting Standards Board (FASB).

Chapter 4 : Valuation Methods - Three Main Approaches to Value a Business

3/8 liabilities other than technical provisions. Where the Guidelines refer to "valuation" it is defined as a valuation in accordance with Article 75 of the.

Chapter 5 : FAS Fair value accounting and Level 3 assets

asset valuation method based on the average of fair market values of plan assets, in accordance with Â§ (g)(3)(B), prior to amendment by WRERA. Under this asset.

Chapter 6 : FS Investment Corporation II | FS Investments

The commonly used methods of valuation can be grouped into one of three general approaches, as approach a valuation analyst will use. II. ASSET BASED APPROACH.

Chapter 7 : IFRS 3 â€” Business Combinations

Market value approaches to business valuation attempt to establish the value of your business by comparing your business to similar businesses that have recently sold. Obviously, this method is only going to work well if there are a sufficient number of similar businesses to compare.