

SEC Rule 2a-5 - Frequently Asked Questions

Q: What is Rule 2a-5?

The rule establishes requirements for determining fair value in good faith. It calls for a Valuation Designee who oversees and adjusts fair value determination processes and regularly reports any material changes to the board. It also expands on which quotes can be considered Readily Available Market Quotations, using the fair value hierarchy found in the US GAAP (level 1/2/3 input system).

Q: When will rule 2a-5 go into effect?

The rule goes into effect on March 8, 2021, which is 60 days after its publication in the federal register. This date marks the beginning of an 18-month period for alignment and compliance that ends on September 22, 2022.

Q: Which firms are affected by Rule 2a-5?

The rule applies to registered investment companies under the 1940 Act, as well as business development companies and unit investment trusts (UITs) whose initial date of deposit (or rollover) falls on or after the effective date of the rule.

Q: Who can be a Valuation Designee?

The Valuation Designee must have fiduciary duties towards the fund, so they can be the fund adviser or a trustee/depositor (for UITs only). The Valuation Designee cannot be a portfolio manager and may not exert influence on the fair values of assets in the portfolio.

Q: What are the Valuation Designee's responsibilities?

The Valuation Designee (along with the board of directors) must actively oversee all of the following:

- » Periodic assessment and management of valuation risks
- » Establishment and application of fair value methodologies
- » Testing of fair value methodologies for appropriateness and accuracy
- » Oversight and evaluation of pricing services
- » Board reporting
- » Recordkeeping

Q: What does the rule not do?

While the rule establishes broad goals for fair value determination, it does not dictate how firms meet these goals. For example, it does not establish one approach for making fair value determinations, nor does it identify specific valuation risks for periodic assessment or indicate a specific frequency for reassessment. That being said, the rule features more than a dozen new responsibilities firms will need to implement and manage in order to be compliant.

Q: How can automation help streamline fair value determination?

Many of the steps involved in fair value determination, as well as the new responsibilities firms must manage, can be handled or made more efficient through process automation. IVP Price Master, for example, is already capable of handling the challenge process workflow, determining which securities are considered fair-value based, providing workflow for approving, monitoring and evaluating pricing service providers, assembling quarterly reports, and preserving data required for back testing or calibration, among many others.

Learn More About Price Master

To learn more about pricing and valuation, along with the implications of the new SEC Rule 2a-5, contact IVP's Managing Director Anuj Gandhi at agandhi@ivp.in or sales@ivp.in.

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