



July 21, 2020

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Proposed Rule 2a-5 [File Number S7-07-20]

To Whom It May Concern:

VRC appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed Rule 2a-5 titled *Good Faith Determinations of Fair Value* (the "Proposal"). We support the efforts of the Commission to address their guidance as it relates to assessing and managing material risks and conflicts of interest in valuation practices and the role of the board of directors in registered investment companies or business development companies ("BDCs")

VRC is a leading fully independent global valuation provider with 9 domestic locations and a network of over 1,200 valuation professionals worldwide. Established in 1975, VRC offers a wide range of financial opinion services with respect to valuation, solvency and fairness in connection with mergers, acquisitions, divestitures, leveraged buyouts and financings for a client base that ranges from Fortune 500 companies to privately held organizations. Our Portfolio Valuation Group is a leading provider of valuation services to private equity sponsors, hedge funds, banks and specialty finance companies and their portfolio companies.

We are pleased to provide our thoughts on the Proposal from our perspective as an independent third-party valuation specialist.

General

- We believe that it would be helpful to define various terms identified frequently in the Proposal but not defined in the preliminary Section (e) Definitions. Among those we suggest include: Investment Adviser; Calibration; Evaluated Prices; Pricing Services; and Service Providers.

Questions

- #1 – We believe this requirement is appropriate and that there is no need to further define specific risks.
- #2 – Annually would probably not be overly burdensome to require a re-assessment of valuation risk. However, it should be disclosed in the policy to hold parties accountable.
- #3 – We do not think further guidance on how valuation risk should be managed is necessary.
- #4 – Application of generally accepted methodologies should be applied in a consistent basis. But specific "appropriate" methodologies need not be required to be disclosed in advance.
- #6 – There is a very high likelihood that there will be investments for which it is not feasible to establish a methodology in advance. If a fund is limited in its investment opportunities by methodologies expressly disclosed in its policy, this would make the fund less flexible in identifying opportunities and make them less desirable to potential investor pools. If the Commission feels strongly, we advise to add language as to why this requirement adds to investor protections.
- #7 – If the Commission is considering allowing flexibility in the frequency and type of testing due to various factors specific to each fund, then we feel that flexibility should be granted regarding the selection of a methodology rather than requiring one in advance.

- #9 – Actions based on the results of testing should be broadly defined, such as if trends are indicating that methodologies are inconsistent with other available options, they should be further investigated.
- #11 – We believe a specific requirement to periodically review the selection of pricing services should be part of the rule, as it generally represents best practices.
- #15 – When the board assigns FV determinations to an adviser, the fund should be required to maintain the records. The adviser likely should also maintain them, but we are unsure if that needs to be within the scope of the rule.
- #17 – We believe it should read that it would be sufficient for a third party with an understanding of general valuation concepts to verify the FV determination.
- #20 – As long as the board feels that their oversight function can be satisfied, and there is a better option than a fund's adviser (including to eliminate possible conflicts), then we believe the board should be able to assign it elsewhere.
- #25 – Generally requiring the board to oversee the adviser is sufficient.
- #31 – Investments with a higher perceived risk profile ("Watch List") should be required to have additional support.
- #45 – To reduce conflicts, best practices is to have an established "Middle Office" that facilitates the establishment of FV, usually through the use of an independent 3rd party valuation adviser. Portfolio Managers should be able to liaise with the Middle Office, but should be limited beyond that to discuss the conclusions with the Board in order to prevent undue influence.
- #52 – ASC 820 was explicitly mentioned in the proposal as a watershed event that motivated the Commission to consider updating their guidance. They should reference ASC 820 where applicable if it serves to facilitate explanation of their requirements.
- #57 – We believe that the definitions should be harmonized in order to avoid confusion and perceived allowable departures.
- #58 – See comment above regarding Middle Office establishment and the engagement of third party independent valuation service providers. The reports from these providers can satisfy a substantial portion of many of the Commission's reporting and recordkeeping requirements proposed under this rule.
- #70 – The proposal states that it is the Commission's understanding that the rules outlined are representative of the general practices being followed, which suggests that the industry has been able to craft effective policies and procedures following general principles. Therefore, a less prescriptive approach would generally suffice for the vast majority of issuers and those needing additional, specific guidance can seek assistance from third party consultants.
- #71 – See comment above regarding Middle Office establishment and the engagement of third party independent valuation service providers.

We understand and appreciate the amount of time and resources that were dedicated in developing the Proposal and applaud the Commission's continued dedication to overseeing that the industry adheres to best practices in the determination of the fair value of fund securities. We hope our comments can further aid in this pursuit. We are available to discuss our comments if there are any questions. Please contact Paul Balynsky at (609) 243-7027 or pbalynsky@valuationresearch.com.

Sincerely,



VALUATION RESEARCH CORPORATION