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LETTER OF COMMENT NO. 5

December 27, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position FIN 46(R)-d, "Application of FASB Interpretation No. 46(R) to Investment Companies"

Dear Technical Director:

We appreciate the opportunity to comment on the proposed FASB Staff Position FIN 46(R)-d, "Application of FASB Interpretation No. 46(R) to Investment Companies" (the proposed FSP). We agree with the Board's proposal to make a permanent scope exception to Interpretation No. 46(R) for investments of non-registered investment companies that are measured at fair value in accordance with the provisions of the AICPA Audit and Accounting Guide, *Investment Companies* (the Guide). However, we believe the Board should either clarify or eliminate the proposed guidance in paragraphs 5 and 6 of the proposed FSP regarding an investment company holding a controlling interest in another investment company.

In paragraphs 5 and 6 of the proposed FSP the Board indicated its belief that the determination of whether an investment company should consolidate another investment company should be made based on the investment objectives of the parent company. Under the requirements of AICPA Statement of Position XX-XX, *Clarification of the Scope of the Audit and Accounting Guide,* Investment Companies, *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (the SOP), the parent company's investment objectives are one of the factors to consider in evaluating whether to retain specialized investment company accounting by an investment company subsidiary in the parent company's consolidated financial statements. However, the determination of whether an investment company is required to consolidate an investment company investee is not addressed in either the SOP or the Guide. We believe that the Board should either eliminate the proposed guidance in paragraphs 5 and 6 or clarify how the investment objectives of the parent investment company would impact whether it would consolidate another investment company that it

controls or for which it is the primary beneficiary. We believe that an investment company should evaluate, under the provisions of Interpretation 46(R) or Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, as applicable, whether to consolidate an investee that is also an investment company unless the Guide provides other guidance on the investment company structure.

Finally, in paragraph 7 of the proposed FSP, we recommend that the phrase "subsidiary or equity method investee" be added after the words "investment company" in the last sentence of footnote a (in the proposed changes to paragraph 4(e) of Interpretation 46(R)).

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If you have any questions concerning our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Kimber Bascom at (212) 909-5664.

Sincerely,

KPMG LLP