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July 8, 2009

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

File Reference: Proposed FSP FAS 157-g

Dear Mr. Golden:

Deloitte & Touche LLP is pleased to comment on the proposed FASB Staff Position No. FAS 157-g, "Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance With the AICPA Audit and Accounting Guide, *Investment Companies*" (the "proposed FSP").

We support the Board's effort to provide application guidance for measuring fair value of certain alternative investments in accordance with FASB Statement No. 157, *Fair Value Measurements*. We believe that the practical expedient outlined in the proposed FSP will resolve certain application issues regarding measurement of fair value for these investments. Although we generally agree with the guidance in the proposed FSP, we believe that the Board should clarify certain elements of this guidance, as discussed in appendixes to this letter. We further recommend that the Board concurrently provide guidance on how net asset value per share ("NAV") should be classified in the fair value hierarchy disclosures if the use of NAV is believed to create a presumption of a certain type of classification regardless of the level of transparency involved in the determination of fair value. The lack of such guidance may undermine the usefulness of the disclosure requirements in paragraph 32 of Statement 157 (as amended).

Although we generally support the enhanced disclosure requirements (see disclosure comments in Appendix A), we are concerned that given the proposed effective date and timing of a final standard, some preparers might find that the disclosure requirements pose a significant operational challenge. We therefore recommend that the FASB change the effective date of the proposed FSP to interim and annual periods ending after September 15, 2009, with early adoption permitted for periods ending after June 15, 2009. We encourage the FASB staff to reach out to the preparer community to determine how best to address these operational challenges.

The current economic environment has highlighted the need for guidance that addresses application issues associated with fair value measurements and we commend the Board for its work to address such issues. We encourage the Board to work closely with the IASB to reconcile any differences that may exist between the final FSP and the IASB's proposed fair value measurement standard that was exposed for public comment on May 28, 2009.

This letter includes two appendixes. Appendix A contains our comments on specific paragraphs of the proposed FSP, and Appendix B contains our responses to the questions in the FSP's Notice for Recipients.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Beth Ann Reese at (203) 761-3067.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

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APPENDIX A Deloitte & Touche LLP Comments on Specific Paragraphs of the Proposed FSP

This appendix discusses specific paragraphs of the proposed FSP. These comments complement our views expressed in the body of the letter.

Paragraph 12

- We recommend that the principle identified in paragraph 12 be set in boldface to identify the scope principle in this FSP.
- Although the AICPA Audit and Accounting Guide *Investment Companies* (the "Guide") requires that all investments (within the scope of the Guide) be measured at fair value, FASB Staff Position AAGINV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans," provides an exception for fully benefit-responsive investment contracts (as defined in FSP AAGINV-1 and SOP 94-4-1) to be measured at "contract value." We recommend that the staff clarify that the proposed FSP does not modify the accounting guidance in FSP AAGINV-1 and SOP 94-4-1.
- As drafted, the proposed FSP's scope excludes investments in entities that do not apply the Guide (such as foreign filers). We recommend that the staff consider expanding the scope of the proposed FSP to include all investment companies (as defined in the Guide), including foreign filers that calculate NAV **consistently** with the Guide (i.e., at fair value).
- As drafted, the last sentence of paragraph 12 may be interpreted as excluding from the FSP's scope investments that are traded in an over-the-counter market only if prices or quotations for the over-the-counter market are publicly reported by NASDAQ or Pink Sheets LLC. We recommend that the staff clarify why only over-the-counter funds whose prices are publicly quoted by NASDAQ and Pink Sheets LLC are excluded from the proposed FSP's scope, but not other funds traded in an over-the-counter market. If the Board's intent is to exclude from the FSP's scope investments listed on markets or exchanges registered with the SEC, we recommend that the staff clarify this in the final FSP to avoid possible application and implementation issues.
- Further, as noted above, the proposed FSP's scope excludes investments whose prices are readily determinable, as the term is used in paragraph 3 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Paragraph 3(a) indicates that "[t]he fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available..." (emphasis added). Some may misinterpret this guidance to mean that a closed-end fund that trades in a market that is either inactive (but for which price quotes are still available) or becomes inactive is within the scope of the proposed FSP. Such an interpretation would mean that if the practical expedient were used, a closed-end fund traded in an inactive market would be recorded at NAV. We recommend that the staff clarify this issue before issuance of the final FSP.

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In addition, we recommend that the staff explicitly refer to or include in the final FSP the guidance in paragraphs 3(b) and (c) of Statement 115 to avoid any misapplication or misinterpretation.

Paragraph 14

• We recommend that the staff consider deleting this paragraph since it does not provide operative guidance.

Paragraph 15

- The beginning of the first sentence (i.e., "In circumstances in which net asset value per share of an investment is not determinative of fair value") is confusing and may be interpreted as creating a "two-class" model in the application of the provisions of the proposed FSP for investments within its scope. That is, it may appear to distinguish between two categories of investments. The first category would be those for which NAV is determinative of fair value, and the second category would be those for which NAV is applied as a practical expedient. Therefore, we recommend that the staff delete the phrase, "In circumstances in which net asset value per share of an investment is not determinative of fair value."
- We are concerned that paragraph 15 would appear to preclude the use of NAV as a practical expedient in the measurement of the fair value of alternative investments if NAV is not calculated precisely as of the reporting entity's measurement date. For example, assume an entity reports on the basis of a 52/53-week year and has a periodend of January 2. In such a case, paragraph 15 may appear to imply that the practical expedient is not available and an investor would be required to consider the impact of restrictions, gates, or other features in determining the fair value of the investment.

We believe that if NAV is calculated near but not as of the reporting entity's measurement date, an entity should be able to (1) use NAV as a starting point in estimating fair value of its investment by adjusting the NAV solely for changes in market conditions that may have occurred since NAV was last reported and (2) ignore the impact of restrictions, gates, or other features that theoretically might affect the fair value, but would not be considered under the practical expedient.

• We recommend that to avoid potential application and implementation issues, the staff clarify whether an entity that uses NAV as a practical expedient should use the reported NAV or the redemption NAV.

Paragraph 16

• As previously noted, we believe that application of paragraph 15 may result in two categories of investments: (1) those in which NAV is determinative of fair value, and (2) those to which the practical expedient is applied. It is unclear from the proposed FSP whether the Board intends to require disclosures only for investments in which NAV is used as a practical expedient or to all investments measured at NAV (including those in which NAV is determinative of fair value). We believe that the disclosure requirements of paragraph 16 are beneficial to all investments measured at NAV and encourage the staff to clarify this issue before issuance of the final FSP.

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• The requirement to provide interim and annual disclosures by "each major category of investment" based on the "nature and risk" of the investment is unclear. We recommend incorporating or including a reference to the guidance in FASB Staff Positions No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," and No. FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets," to clarify what is meant by "each major category of investments."

Further, AICPA Statement of Position 03-4, Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Non Public Investment Partnerships, which applies to nonregistered investment partnerships provides disclosure requirements and an illustrative example of a condensed schedule of investments. We recommend that before issuance of the final FSP the staff (1) address how "each major category" should be defined and (2) provide an example to illustrate the disclosure requirements. Lack of guidance is likely to result in inconsistency and lack of comparability, which would significantly undermine the usefulness of the disclosures.

• It is unclear whether paragraph 16(b) requires an entity to disclose the "remaining life" of each fund or allow the entity to bucket the various investments by numbers of years (e.g., less than 1 year, more than 5 years, 10 years).

Further, it is unclear what the phrase "remaining life of a finite lived investment" means. It may be interpreted to mean the (1) contractual life or (2) expected life of the investee (fund). Since expected life of the fund would be open to interpretation, we recommend that the staff clarify that the remaining life of the fund refers to its contractual life.

We recommend that the staff provide examples of which terms and conditions are
considered significant and should therefore be disclosed under paragraph 16(d). The
absence of such clarification may lead to practice issues and undermine the
usefulness of the disclosures. We further recommend the following edit to paragraph
16(d) (additions are <u>underlined</u> and deletions are <u>struck out</u>):

"The terms and conditions upon which the investor reporting entity may redeem its investment (for example, quarterly redemption with 60 days' notice)."

• The requirement in paragraph 16(e) that an entity disclose its best estimate of when the restrictions against redemptions might lapse involves significant judgment and requires the reporting entity to consult with the investment manager. We are concerned that in certain circumstances an entity may not be able to determine the best estimate and thus this disclosure should only be required when a reporting entity can practicably determine when restrictions against redemptions may lapse.

Again, because of the issues identified above, we strongly recommend that the staff provide an example to assist preparers in interpreting and applying the proposed disclosure requirements.

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APPENDIX B Deloitte & Touche LLP Responses to Notice for Recipients

Question 1: This proposed FSP would apply to an investment in an entity that meets the definition of an investment company in the investment companies Guide for which its net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) has been calculated in accordance with that Guide. However, this proposed FSP would not apply if the fair value of the investment is readily determinable as defined in paragraph 3 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (with one exception described in paragraph 13 of this proposed FSP). Do you believe there are other investments that should be within the scope of this proposed FSP? If so, what principle should be used to determine which investments are within the scope of the proposed FSP? Do you agree that the Board should not permit the application of the proposed FSP to investments in entities that have readily determinable fair values as defined in paragraph 3 of Statement 115? Are there other investments that the Board should exclude from the scope of this proposed FSP?

Please refer to our comments in Appendix A on paragraph 12 of the proposed FSP.

Question 2: Are there circumstances in which an investment might initially have a readily determinable fair value and in a subsequent period not have a readily determinable fair value (and thus arguably become eligible for the practical expedient)? If so, please describe those circumstances. In those circumstances, should the investment be eligible for the practical expedient even though the investor may not be able to transact with the investee (fund) at net asset value per share?

As noted in Appendix A in our last two comments on paragraph 12, we recommend that the Board clarify the scope of the proposed FSP. Further, we believe that at subsequent measurement, if the fair value of the investment ceases to be readily determinable, the investment should be within the scope of the proposed FSP, and we encourage the Board to consider the need for explicit disclosures of changes in method of determining fair value under this standard.

Question 3: The Board also considered alternative approaches to the scope of this proposed FSP. One approach would have indicated that a condition to using the practical expedient is that the primary means to enter and exit the investment is transactions (for example, redemptions or distributions) between the investor and the investee (that is, the fund) at net asset value per share. Another approach would have indicated that a condition to using the practical expedient is that the principal or most advantageous market for the investment is transactions (for example, redemptions or distributions) between the investor and the fund at net asset value per share. Do you believe the Board should pursue one of the alternative approaches instead of the approach taken in this proposed FSP? If so, why?

We generally agree with the approach taken in the proposed FSP. Please refer to the body of this letter and Appendix A for our comments regarding these questions.

Question 4: The Board recognizes that permitting rather than requiring the application of this proposed FSP for entities within its scope potentially reduces comparability. The Board

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decided to permit rather than require that reporting entities apply this proposed FSP to investments within its scope, in part, to avoid potential conflicts with the "good faith" requirements of the Investment Company Act of 1940 and Accounting Series Releases No. 113, Statement Regarding "Restricted Securities," and No. 118, Accounting for Investment Securities by Registered Investment Companies. Do you agree with the Board's decision to permit rather than require the application of this proposed FSP? Are there any other unintended consequences of requiring the application of this proposed FSP to investments within its scope?

We agree with the Board's decision to permit rather than require the application of the practical expedient in the proposed FSP. However, the Board should clarify whether the disclosure requirements in the proposed FSP are applicable if the reporting entity does not apply the practical expedient to an eligible investment (e.g., if it concludes that NAV is determinative of fair value).

Question 5: Are the disclosure requirements of this proposed FSP operational? Should the Board require all of the disclosure by major category (or should it permit some of them on a more aggregated basis)? If the final FSP is effective upon issuance (for example, assume issuance is July 31, 2009), can the disclosures be provided for prior periods for which financial statements have not been issued? Are there other disclosures that the Board should consider requiring?

As noted in the body of our letter, we are concerned that given the proposed effective date, calendar-year-end public entities might find that the FSP's disclosure requirements pose significant operational challenges for filing of the second quarter Form 10-Q, especially if the final FSP is issued in early August or later. Therefore, we recommend that the FASB change the effective date of the proposed FSP to interim and annual periods ending after September 15, 2009, with early adoption permitted for periods ending after June 15, 2009. Further, as mentioned earlier, we also believe that the disclosure information should be made only for material investments and summarized by major categories. We recommend that the staff discuss the disclosure provisions with preparers and provide an illustrative example in the final FSP to assist in consistent application.