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Letter of Comment No: / \( \square\)
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Mr. Lawrence W. Smith
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Financial Accounting Standards Board
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Proposed FASB Staff Position No. AAG INV-a,

Reporting of Fully Benefit-Responsive Investment Contracts

Held by Certain Investment Companies Subject to the AICPA Investment Company Guide

Dear Mr. Smith:

We appreciate the opportunity to comment on the Proposed FASB Staff Position No. AAG INV-a, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide (the Proposed FSP). We commend the FASB for addressing the reporting of fully benefit-responsive investment contracts held by investment companies. We agree with the conclusion reached by the FASB that all investments held by an investment company be reported at fair value. Additionally, we agree that contract value is a relevant measurement for fully benefit-responsive contracts since that is the amount defined-contribution plan participants would receive upon withdrawal. We believe the guidance provided in the Proposed FSP will improve reporting for these type of contracts but we believe further guidance is needed with respect to financial statement presentation and disclosure to provide consistent reporting across the investment company industry. Our detailed comments on the Proposed FSP follow.

## Financial Statement Presentation and Disclosure Requirements

Paragraph 10 of the Proposed FSP indicates that the footnotes to the financial statements should include a) the fair value of the wrapper contract and the fair value of each of the corresponding underlying investments; b) the adjustment from fair value to contract value for fully benefit-responsive contracts; and c) major credit ratings of the issuer or wrapper provider. Section 7.01 of the Investment Company Audit Guide requires that a non-registered investment company present a schedule of investments for each statement of assets and liabilities. Disclosing the

## **II ERNST & YOUNG**

Mr. Lawrence W. Smith

September 19, 2005 Page 2

information in paragraph 10 of the Proposed FSP in the footnotes is duplicative with certain information presented in the schedule of investments for an investment company. We recommend the final FSP require the disclosures in paragraph 10 of the Proposed FSP be included in the schedule of investments for an investment company.

Paragraph 11.c. of the Proposed FSP states "the average yield by the fund (irrespective of the interest rate credited to participants in the fund)" should be presented. Since investment companies generally hold other investments that are not part of the wrapped portfolio the final FSP should clarify whether the average yield relates to all investments or only investments that are under the wrapped portfolio. Additionally, we recommend the final FSP clarify that the yield be based upon earnings of the fund divided by the fair value of all investments in the fund. We also recommend the final FSP clarify that the calculation be based upon a weighted average as measured at each accounting period or periodic valuation (e.g., daily, weekly, monthly or quarterly).

Paragraph 11.d. of the Proposed FSP requires investment companies provide a schedule of the average historical interest rates credited to participants by reset date. We believe that disclosing the information by reset date may result in an overload of information as the frequency of reset dates vary among investment contracts (monthly, bi-monthly and quarterly). Additionally, investment contracts may be weighted differently in the investment portfolio. We recommend a weighted average historical interest rate credited to participants (i.e., the adjustment to the fund's income earned on the underlying investments) for the reporting period (e.g., annual, semi-annual) in the fund be disclosed and the reference to reset date be removed. In lieu of disclosing the average historical interest rate credited it may be more pertinent to disclose the average yield on all investments as indicated in paragraph 11.c. and a yield for the fund (including impact of crediting rate).

In order to promote consistency in financial statement presentation and disclosure we recommend the final FSP include an example income statement, statement of changes in net assets and financial highlights in addition to the example balance sheet presentation.

Paragraph 11.e. indicates the investment company should disclose two sensitivity analyses. The final FSP should indicate that the average crediting rate used in the sensitivity calculation is the same rate referred to in paragraph 11.d. and should be a weighted average crediting rate. We are not clear as to what is meant by the next four reset dates in paragraph 11.e.(1) and 11.e.(2) of the Proposed FSP since reset dates will vary for all the investment contracts in the investment company. Should the reset dates be assumed to be quarterly? Additionally, should the hypothetical example provide for an increase and decrease in interest rates? The final FSP should be more specific on what should be presented. One example could present a one-quarter

## **II ERNST & YOUNG**

Mr. Lawrence W. Smith

September 19, 2005 Page 3

and one-half per cent increase and decrease in interest rates at each quarterly reset date during the year. It currently is unclear if a decrease in interest rates also must be presented. In analysis (2) it indicates an immediate 15% decrease in net assets. Does the Proposed FSP intend the calculation to include a 15% decrease at each reset date (extreme scenario) or just at the first reset date? The final FSP should include a standardized format so disclosures are consistent across investment companies in the industry.

## Special Transition Guidance

Paragraph 13 of the Proposed FSP states "as of the effective date, all, or essentially all, of the investment company's net assets must be held by participants in one or more qualified employersponsored defined contribution plans." We recommend that the final FSP explain what constitutes "essentially all" since it is not a commonly used criteria in accounting literature. There may be differing interpretations on what constitutes "essentially all," such as 95% or 99% of the investment company's net assets. We recommend the final FSP state that "as of the effective date the investment company's net assets consist of none, or only an immaterial amount of non qualified employer-sponsored defined contribution plans assets." Additionally, paragraph 13 states "any portion of the net assets of the investment company that is not held by participants in qualified employer-sponsored defined-contribution plans as of the effective date is not permitted to increase due to gross contributions, loan repayments, or transfers into the fund." If investment company net assets decline due to redemptions, is it permissible for non defined contribution assets to make up a significant percentage of the investment company net assets after the effective date? The FSP should further clarify that temporary investments by investors of non-qualifying assets (i.e., defined benefit) would not result in non-compliance with the standard if they are identified and cured promptly. We recommend the final FSP provide guidance for such situations.

Again, thank you for the opportunity to provide you with our comments on this FASB Staff Position. We would be pleased to discuss our comments with you further at your convenience.

Very truly yours,

Ernst + Young LLP