



* F S P F A S 4 G R D *
LETTER OF COMMENT NO. 4

December 21, 2006

Director—TA&I-FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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**Proposed FASB Staff Position No. FIN 46(R)-d
“Application of FASB Interpretation No. 46(R) to Investment Companies”**

We appreciate the opportunity to comment on the above-referenced proposed FASB Staff Position (Proposed FSP). While we would not object to finalizing the FSP as it has been proposed, we believe the Board is missing an opportunity to provide helpful guidance in an area that already has diverse practice. We recognize that the Board wishes to have consolidation policy consistently applied by registered and unregistered investment companies. To that end, we agree that unregistered investment companies would consolidate only other investment companies. It is not clear to us, however, why an investment company should not consider FIN 46(R) in determining whether it should consolidate another investment company.

We believe there is diversity in practice by investment companies in determining whether they should consolidate other investment companies. That diversity is caused, in part, not only by differing views on whether an investment company’s consolidated financial statements should include a minority interest, but also because the investment company industry uses a variety of unique structures, which include master/feeders, blockers, sidecars, and alternative or accommodation investment vehicles.

Our experience has indicated that an investment company can be considered a variable interest entity for a variety of reasons, and practice in applying FIN 46(R)’s provisions is becoming established. For all of these reasons, we believe an investment company that holds a variable interest in an investment company—just like any other variable interest holder—should be required to base its consolidation decision on variable interests when the investment company’s voting interests are concluded to lack sufficient economic substance.

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We believe that even if the Board elects not to follow our suggestion, given the unique nature of investment companies and their structures, the Board should undertake a limited scope project to provide additional guidance on consolidation policy by investment companies.

We would be pleased to discuss these issues with the Board or its staff at its convenience.

Sincerely,

Ernst + Young LLP