

July 8, 2009

Russell G. Golden, CPA  
Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re: June 8, 2009 Proposed FASB Staff Position (FSP) 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***

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed FSP and is providing the following comments for your consideration.

### GENERAL COMMENTS

TIC supports the conclusion reached in this Proposed FSP that a reporting entity should be permitted to estimate the fair value of alternative investments using net asset value (NAV) per share (or its equivalent, as described in the proposal) without further adjustment, if the NAV per share of the investment is determined in accordance with the AICPA Audit & Accounting Guide, *Investment Companies*.

TIC has also recommended additional guidance for selecting and reporting the appropriate input level when the *Investment Companies* guide is used to calculate fair value of alternative investments.

### SPECIFIC COMMENTS ON QUESTIONS FOR RESPONDENTS





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?*

TIC agrees with the scope of the Proposed FSP. TIC also agrees that if the fair value of the investment is readily determinable as defined in Statement 115, paragraph 3 (FASB Accounting Standards Codification<sup>TM</sup> (ASC) glossary term *readily determinable fair value*), that value should be used, and not net asset value.

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?*

TIC believes that if an investment no longer has a readily determinable fair value, it should be eligible for the practical expedient and use of net asset value. TIC believes the proposed disclosures allow for financial statement users to understand the value of investments "transferred in" to the scope of the proposed FSP.

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?*

TIC believes the current approach taken by the board is the most operational and the easiest for financial statement preparers and users to understand and apply consistently. TIC does not believe that an alternative approach should be considered.

*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 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?*

No response.

*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?*

TIC believes the disclosure requirements are operational.

However, TIC believes additional guidance is required to ensure that entities report the appropriate input levels within the fair value hierarchy under FASB ASC 820, *Fair Value Measurements and Disclosures*. For example, does the staff believe that all investments reported at net asset value (assuming the investment company and investor are using the same reporting date) are Level 2, or is “look through” required, in which case the investment may be reported in Level 3 if the underlying investment reports assets in Level 3? The following examples illustrate the issues and include TIC’s suggested guidance:

- Assume that Company A uses NAV for its investment in a hedge fund. The hedge fund only has investments in actively traded U.S. equities and reports all of its investments as





Level 1. Company A would report the hedge fund as a Level 2 input, since the fund itself is not traded.

- Assume that Company A uses NAV for its investment in a hedge fund. The hedge fund has investments in stocks and bonds, not all actively traded and reports its investments as Level 1 and Level 2. Company A would report the hedge fund as a Level 2 input.

- Assume that Company A uses NAV for its investment in a hedge fund. The hedge fund invests in stocks, bonds and real estate and reports its investments in all three levels. Company A would report the hedge fund as a Level 3 input.

In addition, in cases where the reporting date of the investment fund is different from the investor's balance sheet date, TIC questions whether the assumptions necessary to adjust the NAV to the appropriate measure at the investor's balance sheet date would represent Level 3 inputs.

TIC believes diversity in practice may result if such guidance is not added to the final FSP.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Stephen Bodine".

Stephen Bodine, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee

