

January 5, 2010

Russell Golden, Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

sent via email to director@fasb.org

Re: Proposed Accounting Standards Update, Consolidation (Topic 810),
Amendments to Statement 167 for Certain Investment Funds
(File Reference No. 1750-100)

Dear Mr. Golden:

Arthur F. Bell, Jr. & Associates, L.L.C. is a Certified Public Accounting firm which conducts audits of approximately 200 investment funds (“hedge funds”) and provides audit, attestation, tax, consulting and other services to related entities, including investment advisers. Our firm is a Registered Public Accounting Firm with the Public Company Accounting Oversight Board.

We appreciate the opportunity to comment on the Exposure Draft of the proposed Accounting Standard Update (ASU), Consolidation (Topic 810), *Amendments to Statement 167 for Certain Investment Funds*. We also appreciate the efforts of the FASB and its staff in the issuance of the proposed ASU, which would defer the provisions of FASB Statement No. 167, *Amendments to FASB Interpretation 46(R)*, for entities that meet the requirements specified in the proposed ASU.

We support the deferral under the proposed ASU such that investment management entities would temporarily be exempted from having to consolidate certain investment funds they manage (hedge funds, etc.). We further believe that investment management entities should generally be permanently scoped out of the provisions of FASB Statement No. 167 with respect to investment entities they manage, except in certain limited circumstances (i.e., where the investment management entity, through a combination of its fees and direct investment in the investment funds, participates in a majority of the investment fund’s expected losses or residual returns). Additionally, we believe that investment management entities should generally be scoped out of certain other consolidation provisions of ASU Topic 810, specifically the provisions of ASU Topic 810, Subtopic 20, *Control of Partnerships and Similar Entities* (issued as EITF 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*), except under similar limited circumstances.

We believe the proposed deferral from the consolidation provisions of FASB Statement No. 167 as they relate to investment funds managed by investment management entities is appropriate for the following reasons :

- The consolidation guidance originally issued under FIN 46, and as subsequently amended, was to address perceived abuses in which reporting entities were designing special purpose entities with the express intent of derecognizing certain assets and liabilities. The consolidation guidance issued in FIN 46, as well as EITF 04-5, sought to address these abuses by requiring reporting entities to consolidate entities in which they had significant on-going economic exposure and in which they exerted significant operational influence. Investment management entities generally do not have significant on-going economic exposure to the assets they manage within an investment fund. Applying the consolidation guidance in FAS 167 would appear to address issues that do not exist with respect to investment management entities and their investment funds. In addition, as explained below, the application of these consolidation rules to investment management entities also distorts the presentation of such entities' financial position and results of operations.
- We believe that consolidation by investment management entities of certain investment funds often results in misleading and potentially meaningless information to the financial statement users. Investment management entities and investment funds are two completely different types of entities, normally with substantially different assets, liabilities, nature of operations and cash flows. In most instances, the investment management entity of an investment fund is structured as a "pass-through" entity (i.e., a partnership, limited liability company, or S corporation) which typically distributes most of the entities profits to the entities owners and retains minimal excess tangible assets. By contrast, hedge funds or other investment funds typically have a substantial amount of net assets, consisting primarily of financial instruments. The consolidation by an investment management entity of one or more investment funds often results in consolidated financial statements of the investment management entity that look more like that of an investment fund and obscures the true financial position, operations and cash flows of the investment management entity.
- We believe that the matter of consolidation of certain investment funds by investment management entities requires specific and tailored deliberation by FASB. Investment management entities subject to U.S. GAAP take many forms (stand alone investment management entities, subsidiaries of banks and insurance companies, etc.) and manage trillions of dollars of capital and related capital flows in the world economy. Irrespective of the proposed deferral of FASB Statement No. 167, other GAAP guidance (e.g., EITF 04-5) can result in consolidation of an investment fund by an investment management entity in certain instances even though such entity is substantively identical to another investment management entity which is not required to consolidate. Accordingly, we believe specific deliberation and promulgation of new accounting standards, or revision of existing accounting standards, by FASB is warranted with respect to consolidation guidance applicable to investment management entities.

Russell Golden, Technical Director
Page 3

Our responses for your comment questions no. 2 through no. 4 in the proposed ASU are as follows:

- We believe that the amendments to paragraph 810-10-65-2 in the proposed ASU clearly indentifies the population of entities that would qualify for the deferral.
- We believe that the Board's proposed change to include language to clarify that related-party arrangements should be considered for all of the conditions in paragraph B22 of FASB Statement No. 167 is operational and achieves the Board's objectives.
- We believe that the Board's proposed changes to condition (c) in paragraph B22 of FASB Statement No. 167 are operational and achieve the Board's original objective in FASB Statement No. 167 that a quantitative test should not be the sole determinant of whether a fee arrangement is a variable interest.

We appreciate the opportunity to comment and would be glad to further discuss our comments with you at your convenience. If you have any questions or desire any additional information with respect to our comments, please do not hesitate to contact me at 410-771-0001 or via email at Ross.Ellberg@arthurbellcpas.com.

Sincerely,



Ross A. Ellberg, Member
Arthur F. Bell, Jr. & Associates, L.L.C.