



WORLD-CLASS INVESTMENT MANAGER

January 6, 2010

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

**Re: Amendments to Statement 167 for Certain Investment Funds  
File Reference No. 1750-100**

Dear Mr. Golden:

We appreciate the opportunity to comment on the proposed accounting standards update "Amendments to Statement 167 for Certain Investment Funds" (the Proposed ASU). Federated is one of the largest investment managers in the United States with \$392.3 billion in managed assets as of September 30, 2009. The majority of Federated's revenue is derived from advising and administering Federated mutual funds and separate accounts in both domestic and international markets.

Federated has been actively participating in the SIFMA Asset Management Group's FAS 167 Working Group and supports the comments reflected in its letter to the FASB dated December 16, 2009. We strongly support the issuance of the Proposed ASU and believe it is a positive step toward avoiding inappropriate consolidation of assets to which asset managers have no claim, title or interest. We deeply disagree with a consolidation model that could require an asset manager to consolidate investment funds, including collateralized debt obligations (CDOs), in which its economic involvement is limited to earning fees for service and a minor equity interest, if any. We believe consolidation of such funds will ultimately lead to illogical financial statements that do not accurately reflect Federated's operations and financial condition.

In the near term, the Proposed ASU addresses our concern as it relates to certain investment funds including mutual funds and certain offshore funds. CDOs, however, have been specifically excluded from the deferral thus we continue to have concerns regarding the potential consolidation of CDOs by asset managers. The Proposed ASU provides no explanation for excluding CDOs. The lack of a sound principle supporting the basis for

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differentiating between the products that are eligible for the deferral versus those that are not leads to confusion in application and diversity in practice.

We believe CDOs should be included in the products eligible for the deferral. Without a deferral, asset managers are at risk of consolidating CDOs even though their involvement with CDOs is consistent with their involvement with the type of investment funds that are eligible for the deferral. That is:

- Asset managers act as agents of CDOs. Their duties and responsibilities are limited to providing investment advice in accordance with the strict investment policies of the CDOs. The investment policies of a CDO are often more restrictive than those of a mutual fund and significantly restrict the asset manager's ability to trade the CDO portfolios. As a result of these restrictions, an asset manager may be unable to buy or sell securities or to take other actions which it might consider in the best interest of the CDOs and their investors.
- CDO asset and debt balances do not originate as a result of a transfer from the asset manager to the CDO. The asset manager has no current or future claim to the CDO assets or any obligation for the CDO debt.
- Asset managers earn a fee for service. In Federated's case, the fees are fixed-rate, asset-based fees.
- Asset managers do not have off-balance sheet risk associated with CDOs. As with a mutual fund, an asset manager's maximum exposure to loss is equal to any investment it holds in the CDO.

The structural differences of a CDO as compared to a mutual fund have no bearing on the extent of the investment advice/decision making being provided by the asset manager or on the manager's maximum exposure to loss. For this reason, we do not believe the waterfall structure of a CDO should be cause for different accounting treatment.

Consolidation of CDOs on the face of the financial statements would be accompanied by numerous lengthy and potentially cumbersome disclosures to make clear the fact that Federated does not have title or interest in the CDO assets and does not have any recourse to the CDO debt or liabilities. Consolidation of the CDOs would prove to be extremely challenging and counterproductive as we strive to present transparent reporting of Federated's results of operations.

Federated has been closely following the joint FASB and IASB project on consolidation and supports the development of a converged consolidation model with the IASB. We are encouraged by the IASB's considerations of agency relationships. We will continue to stay tuned to those discussions and will look for additional opportunities to participate in the comment process.

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We appreciate your consideration of this letter and we welcome the opportunity to talk through our comments and observations with the FASB staff. Please contact Stacey Friday at (412) 288-1244 to discuss any questions you may have regarding our comments.

Sincerely,

/s/ Denis McAuley III  
Denis McAuley III  
Principal Accounting Officer

/s/ Stacey H. Friday  
Stacey H. Friday  
Director, Accounting Policy