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## THE CARLYLE GROUP

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February 13, 2012

Ms. Susan M. Cospers  
Technical Director  
File Reference No. 2011-220  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis***

Dear Ms. Cospers:

On behalf of The Carlyle Group (referred to herein as “Carlyle” or “we”), we appreciate the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis* (“the Proposed ASU”).

Carlyle is a global alternative asset management firm advising an array of specialized investment funds and other investment vehicles that invest across a range of industries, geographies, asset classes and investment strategies. We manage over \$148 billion of assets under management across 89 funds and 52 fund of funds vehicles. Carlyle has over 1,200 employees in 33 offices across six continents and we serve over 1,400 investors from 72 countries. Carlyle’s funds have investments in over 200 portfolio companies.

We are supportive of the principles reflected in the Proposed ASU and we are also supportive of transition guidance that permit early adoption.

We generally believe that the Proposed ASU will lead to less frequent consolidation of investment funds by fund managers, as the manager in most cases is functioning as an agent on behalf of the fund investors. Consolidation of funds by the manager generally has a gross-up effect on assets, liabilities and cash flows of the manager and eliminates the manager’s management and performance fees in consolidation. As a result, in our opinion, the consolidation of investment funds by the manager generally results in less transparent financial reporting by the manager.

The Proposed ASU has been drafted in a manner to provide the underlying accounting principles and factors to consider when assessing principal versus agent. We think this is the correct approach rather than to suggest more definitive rules and bright lines, as every situation cannot be contemplated in the standard setting process.

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While we support the overall objective of the Proposed ASU, we have the following comments:

- Section 810-10-15-25(b) indicates that a general partner that carries its investment at fair value in a limited partnership with changes in fair value reported in a statement of operations or financial performance is outside the scope of the proposed amendments. Based on the Board's separate project on investment companies, an investment company that holds a controlling financial interest in another investment company would be required to consolidate that investee. Accordingly, this provision may need to be amended, depending on the conclusions reached in the separate project.
- Section 810-10-25-43 of the Proposed ASU indicates that all related parties and de facto agents would be considered in applying the variable interest guidance, unless otherwise specified. In the implementation of Statement 167, an issue was raised about how to consider employee benefit plan holdings in evaluating whether a decision maker's fee is a variable interest. Statement 167 was later amended to exclude the decision maker's employee benefit plans in that analysis.

In determining whether a decision maker is a principal or agent, the indirect economic interests held by a decision maker's related parties should be aggregated with the decision maker's direct interests. By not exempting the decision maker's employee benefit plan from this analysis, as the party with responsibility for the benefit plan's obligations, the decision maker could be inappropriately identified as an agent. We believe that the Board should consider whether the exemption for employee benefit plans should be carried forward in the proposal.

- By retaining section 810-10-25-44, it is possible that a decision maker could be concluded to be an agent but still required to consolidate an entity pursuant to this "tiebreaker" analysis. We would encourage the Board to consider whether this result is appropriate or whether it is contrary to the overall principles set forth in the Proposed ASU.
- In applying the principal/agent guidance, based on the Board's examples, it appears that a 20% equity interest in a fund would generally require consolidation. It is unclear whether it was the Board's intent to specifically conclude that a 20% interest would require consolidation. Given the importance of this factor in the analysis, we would encourage the Board to provide additional interpretive examples to help minimize any improper application of the guidance.
- Section 810-10-25-82 of the Proposed ASU discusses how a general partner should determine whether it is a principal or agent. If, for example, a limited partnership exists that has a single limited partner (with no ability to remove the general partner) and the general partner is deemed to be an agent, it appears that the limited partnership would

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not be consolidated by either party. We believe that this is the appropriate conclusion based on this example fact pattern; however, we do not believe that the Proposed ASU is clear that this would be the appropriate conclusion. Additionally, ASC 810-10-25-38C indicates that for a VIE, a single entity with unilateral ability to exercise kick-out rights may be the party with power. We believe that this concept would be helpful to include in the complementary voting interest guidance for partnerships.

- We believe that the guidance in the Proposed ASU on determining whether a principal could become an agent (or vice versa) is not entirely clear. We believe that changes to the purpose and design of a structure would seem to warrant revisiting the principal/agent analysis. However, we do not believe that fluctuations in the economics of the structure alone should require a reconsideration. We would encourage the Board to provide additional clarification in this area.

We appreciate the opportunity to offer our feedback on the Proposed ASU. We would be pleased to discuss our views with you at your earliest convenience.

Sincerely yours,

A handwritten signature in cursive script that reads "Curtis L. Buser".

Curtis L. Buser  
Managing Director & Chief Accounting Officer