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February 14, 2012

Technical Director
Financial Accounting Standards Board
410 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Financial Services – Investment Companies (Topic 946)

Amendments to the Scope, Measurement, and Disclosure Requirements (File Reference Number 2011-200)

Arthur F. Bell, Jr. & Associates, L.L.C. ("Arthur Bell CPAs") is a Certified Public Accounting firm which specializes in providing audit, tax, consulting and other services to hedge funds, commodity pools, funds of funds, and other related entities, including investment advisers and commodity trading advisors (collectively, "investment managers"). We are a member of the Center for Audit Quality of the American Institute of Certified Public Accountants. In addition, the firm is registered with, and subject to inspection by, the Public Company Accounting Oversight Board.

We appreciate the opportunity to comment on the proposed Accounting Standards Update ("ASU") referenced above. We also appreciate the efforts of the FASB and its staff in providing further guidance on whether certain entities qualify as investment companies while also attempting to develop a definition of an investment company which is generally consistent with that of the International Accounting Standards Board. This issue is of significance to our investment manager clients.

Arthur Bell CPAs supports the provisions of the proposed ASU. In particular, we agree that an investment company is generally defined as an entity with the express business purpose of seeking capital appreciation and current income through the investing of one or more types of financial instruments (e.g., stocks, bonds, commodity interests, as well as other investment companies). As such, we agree that the determination of whether an entity meets the definition of an investment company should be principles based and not reliant on a quantitative analysis.

While we generally agree with the provisions of the proposed ASU, we disagree with the following aspects of the proposed ASU:

<u>Criteria Regarding the Number of Investments and the Number of Investors</u>

Section 946-10-15-2 of the proposed ASU describes six criteria which must all be met in order for an entity to be considered an investment company. We are generally in agreement with these criteria except we believe certain of these criteria unnecessarily introduce quantitative factors:

- Nature of the investment activities the investment company's only substantive activities are investing in <u>multiple</u> investments for return from capital appreciation, investment income, or both.
- Pooling of funds the funds of the investment company's investors are pooled to avail investors of professional investment management. The entity has investors that are not related to the parent and those investors, in the aggregate, hold a significant ownership interest in the entity.

We believe the requirement to have multiple investments is overly restrictive and should not determine whether an entity is an investment company. In addition, we believe the requirement that an entity have multiple unrelated investors is also overly restrictive. Single investor funds may be established because an unrelated investor desires modified investment allocations or modified liquidity terms. As such, we disagree that the number of unrelated investors should determine whether an entity meets the definition of an investment company. This determination should be made based on an assessment of the basic design and intent of the entity rather than a quantitative assessment regarding the number of investments or the number of investors in the entity.

Provisions Regarding the Consolidation of Another Investment Company

Section 946-810-45-3(b) of the proposed ASU requires an entity that is an investment company in a fund-of-funds structure to consolidate any investment company in which it holds a controlling financial interest. We do not see the benefit of this provision to the investors in funds-of-funds. From the perspective of the fund-of-funds, the investments in other funds are generally carried at fair value using the "practical expedient" under 820-10-35-59. This treatment is consistent with other investments also being carried at fair value. In addition, we believe the presentation of investments in other funds under a method which is essentially equivalent to the equity method of accounting provides the most useful investment information to the investors of the fund-of-funds. Requiring the consolidation of investee funds in which the fund-of-funds has a controlling financial interest will result in additional cost with little to no additional benefit to the investors. In fact, the financial reporting resulting from the consolidation of certain investee funds will only result in confusing and less meaningful information being provided to the investors. Sufficient reporting requirements already exist with respect to fund-offunds that require the separate disclosure in the condensed schedule of investments of any investee fund comprising 5% or more of the fund-of-fund's net asset value. In addition, there is an additional requirement to provide additional "look through" disclosures of the proportional interest of investments of all investee funds that comprise 5% or more of the fund-of-fund's net asset value. These disclosures provide sufficient information to the users of the fund-of fund's financial statements regarding investment activity and concentrations of investments.

Additional complications would also be introduced to the auditing of fund-of-funds should these consolidation requirements become effective. Currently, auditors of fund-of-funds gain comfort with the existence and valuation of the investment in other funds through a variety of means, including, but not limited to: (1) confirmation of the fund-of-fund's investment balance roll-forward including current year additions and redemptions from the investee fund and its share of income allocated from the investee fund; (2) obtaining and reading the audited financial statements of the investee fund; and (3) obtaining and reading copies of the offering memorandum, operating agreements and subscription agreements related to investments in investee funds, including the vouching of cash payments for subscriptions and cash receipts for capital redemptions from the investee fund. If the provisions of the proposed ASU become effective and fund-of-funds are required to consolidate investee funds where

they are deemed to have a controlling financial interest, issues may arise as to how the auditor of the fund-of-funds will be able comply with the principle auditor requirements under auditing standards generally accepted in the United States of America because a significant portion of the fund-of-funds' consolidated assets, liabilities, revenues and expenses might be audited by other auditors. In order to comply with the principal auditor requirements, the auditor of the fund-of-funds will either have to review the audit workpapers of the investee fund's auditors with the purpose of taking responsibility for such auditing procedures or, alternatively, the auditor of the fund-of-funds will have to make reference to the work of other auditors in their own opinion on the fund-of-funds' financial statements. The cost of complying with these principal auditor requirements also outweigh the benefits, if any, from consolidating investee funds.

In addition, it is unclear to us whether a fund-of-funds would truly have a controlling financial interest in an investee fund solely because it owns greater than 50% of the interest in the investee fund. Ownership percentages in the fund could fluctuate significantly during the course of the year and the fund-of-funds generally would not be able to exercise control over the investee fund absent specific control mechanisms explicitly provided for in their investment agreement.

Given the above, we believe these consolidation provisions would provide no additional value to the users of the financial statements, would add costs to comply with these provisions, and would also pose implementation issues likely not anticipated by the FASB in its proposal.

<u>Disclosure – Financial Highlights</u>

Section 946-810-50-1 would require an investment company that consolidates another investment company to calculate its financial highlights using consolidated amounts excluding amounts attributable to the non-controlling financial interests. Aside from the general concern that we have with the consolidation requirements expressed above, we also believe this provision could be difficult to implement as it is dependent on the fund-of funds' manager being able to obtain the necessary information concerning non-controlling financial interests from the investee fund's manager or administrator. This disclosure requirement will also increase audit costs because the auditor will be required to gain comfort over the components of the non-controlling interest required to be excluded from the calculation of financial highlights.

We appreciate the opportunity to comment and would be glad to discuss our comments with you at your convenience. If you have any questions or desire additional information with respect to our comments, please do not hesitate to contact either Bob Zink or Thomas Stranger at 410-771-0001 or via e-mail at bob.zink@arthurbellcpas.com or thom.stanger@arthurbellcpas.com, respectively.

Sincerely,

Arthur F. Bell, Jr. & Associates, LLC

Arthur F. Bell, Ja. & Associater, L.L.C.