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February 15, 2012

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**File Reference No. 2011-200**

Re: Proposed Accounting Standards Update—*Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*

Dear Ms. Cospers:

Reznick Group, P.C. appreciates the opportunity to comment on the Proposed Accounting Standards Update—*Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*, issued by the FASB.

We support the overall objective of the Board in improving investment company accounting. Although we have questions and clarifying comments with certain aspects of the Exposure Draft's proposals, we believe that with further enhancements the Board can develop a clear and robust final standard on accounting for investment companies.

Our responses to specific questions on which the Board is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Michael Beck at (404) 847-7728.

Yours truly,

Reznick Group, P.C.

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**Question 1: Scope**

The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?

We generally agree that an investment company should meet the criteria. However, we believe the criteria should be principle based and that an entity which meets substantially all the criteria might still be an investment company even though it fails to meet all of the criteria. Allowing a more principles-based approach would allow companies which intend to be investment companies to qualify even if they do not meet all of the criteria.

In our response to the proposed accounting standards update, *Real Estate - Investment Property Entities (Topic 973)*, we indicated that we believe the proposed criteria to be an investment property entity is essentially the same as the criteria to be an investment company with the exceptions that an investment property entity may hold a single investment and an investment property entity is not required to meet the fair value management criteria. Creation of additional guidance under Topic 973 for real estate investment property entities adds complexity and reporting nuances that are unnecessary. Entities that would otherwise meet the criteria to be an investment company should not be precluded from investment company status because they primarily hold real estate investments. In addition, criteria which are based on investment holdings can result in changes in an entity's status over time as its investments change which would create confusion for investors. Accordingly, we believe the criteria to be an investment company should be modified to allow for entities which invest primarily in real estate.

Overall we believe the six criteria are appropriate. However, we believe some modifications are needed, as described below:

Nature of the investment activities

*Multiple investments*

We believe the requirement to hold multiple investments should be modified to allow an entity to hold a single investment. Certain investments, in particular investments in large investment properties, may be so large that they consume all of the investment capital of the entity. The number of investments held by an entity does not change the nature or purpose of the investment or the purpose of the entity.

*Types of investments*

We believe the criteria should be modified to allow an entity's investments to consist primarily of investments in real estate.

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Investments held for income purposes

We believe that investments held for income purposes should also have a requirement that the entity not control the operations of the investee. This would differentiate those investments that are made for investment purposes from those made for operational purposes.

Income from investments

Income from investments should only include income received directly from the investee and should not include benefits received from the government, such as tax credits. See also our comments related to investments in tax credit funds below.

Tax credit funds

We also believe more guidance and clarification is needed in connection with what would constitute an investment made for returns from income as proposed in 946-10-15-2(a). Tax credit investment funds traditionally have not been considered investment companies. The purpose of these investments is to purchase tax credits. Such investments generally are not made to obtain investment returns from capital appreciation or from cash flows from the investee. The tax benefits received by investors are derived directly from the government and not the investee. Typically the fund is a pass-through entity and does not report any of the tax benefits in its financial statements. Investors in tax credit funds generally do not receive any significant benefits other than the targeted tax benefits. We believe that tax credit funds should not qualify as investment companies since the investment returns are received from the government. However, under the current criteria it is possible that some might argue that tax credit funds are investment companies based on a view that the tax credits are considered investment income.

Pooling of funds

We believe that this criterion should be modified to allow for a single investor in situations where the entity is managed by a non-owner entity.

**Question 2: Scope**

The definition of an investment company in the proposed amendments includes entities that are regulated under the SEC's Investment Company Act of 1940. Are you aware of any entities that are investment companies under U.S. regulatory requirements that would not meet all of the proposed criteria in paragraph 946-10-15-2? If so, please identify those types of entities and which of the criteria they would not meet.

No response to this question.

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**Question 3: Scope**

The proposed amendments would remove the scope exception in Topic 946 for real estate investment trusts. Instead, a real estate investment trust that meets the criteria to be an investment property entity under the proposed Update on investment property entities would be excluded from the scope of Topic 946. Do you agree that the scope exception in Topic 946 for real estate investment trusts should be removed? In addition, do the amendments in the proposed Updates on investment companies and investment property entities appropriately identify the population of real estate entities that should be investment companies and investment property entities?

We concur with the broad concept that the legal form of an entity should not impact the accounting for that entity. Accordingly, we believe that REITs which intend to be investment companies should not be precluded from being an investment company merely because they are legally structured as a REIT. However, many REIT's invest in real estate to earn income from operating the real estate that they own and do not manage their investments on a fair value basis. We believe the current criteria related to the nature of investment activities of investment companies which encompasses investment income could result in substantially all REITs being classified as investment companies (or investment property entities). We do not agree with this outcome. Virtually all for-profit entities are designed for purposes of earning income. What separates most of these entities from investment companies is that they control the operations of their businesses. We believe one of the differentiating characteristics of an investment company is that they typically invest in entities controlled and operated by others.

Real estate, especially income producing properties, can be structured in a manner where outside investors make passive investments while an owner/operator controls and manages the property. Allowing investment companies to control their investees would permit an operating entity to attempt to categorize itself as an investment company. Accordingly we believe more guidance is needed to differentiate income earned from investing in assets versus income earned from operating assets.

**Question 4: Scope**

The proposed amendments would require an entity to reassess whether it is as an investment company if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?

While we agree with the concept, we disagree with how it is accomplished in the exposure draft because we believe the current guidance could lead to volatility in entity classification. Reassessment based on purpose and design is defined in the exposure draft as being based on whether the entity no longer continues to meet the criteria to be an investment company. We are concerned that this could lead to unintended reclassifications of entities if they fall in and out of meeting the criteria. Such volatility in entity classification would be confusing to users of the

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financial statements. Reassessment needs to incorporate some element of intent to no longer be an investment company. Also, we recommend temporary violations of the criteria be allowed through the application of "other than temporary" considerations.

**Question 5: Nature of the Investment Activities**

An entity may be an investment company when it performs activities that support its investing activities. As a result, a real estate fund or real estate investment trust (that is not an investment property entity) could be an investment company if the entity (directly or indirectly through an agent) manages only its own properties. However, the entity would be precluded from being an investment company if the other activities were considered more than supporting the entity's investment activities (for example, construction). Is this requirement operational, and could it be consistently applied?

We generally agree with precluding an investment company from performing services that do not directly support its investing activities. However, we do not agree with precluding affiliates from providing management services to other entities.

**Question 6: Nature of the Investment Activities**

The proposed implementation guidance includes examples of relationships or activities that would indicate that an entity obtains or has the objective of obtaining returns from its investments that are not capital appreciation or investment income. Do you agree with these examples? If not, how would you modify the examples while still addressing the Board's concerns identified in paragraphs BC15 and BC16?

We do not agree with the proposed guidance which does not permit affiliates of an investment company to earn fees or income in connection with an investment other than investment income. We believe that affiliates of an investment company parent entity should be allowed to earn fees in connection with services provided to investee entities as long as the fees are in the ordinary course of business and the amounts paid are commensurate with the services provided and are reasonable in comparison to fees charged by third parties for similar services.

**Question 7: Unit Ownership and Pooling of Funds**

To be an investment company, the proposed amendments would require an entity to have investors that are not related to the entity's parent (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Is this criterion appropriate? If not, why?

We generally agree with this requirement. However, we believe it is important to allow for diverse forms of ownership. It is possible for an entity to be managed by a party which has no equity at risk and where all of the equity at risk is contributed by a single owner who is independent of the manager. Such a situation should not preclude treatment of the entity as an investment company.

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**Question 8: Unit Ownership and Pooling of Funds**

The proposed unit-ownership criterion would require an entity to have ownership interests in the form of equity or partnership interests to be an investment company. The entity would consider only those interests in determining whether it meets the proposed pooling-of-funds criterion. Therefore, a securitization vehicle, such as a collateralized debt obligation, may not qualify as an investment company under the proposed amendments because it may not meet the unit-ownership or the pooling-of-funds criterion. The entity would not consider interests held by its debt holders when evaluating these criteria to be an investment company. For entities that do not have substantive equity interests (for example, those considered variable interest entities under Subtopic 810-10), should the unit-ownership and pooling-of-funds criteria to be an investment company consider interests held by debt holders? Please explain.

No response to this question.

**Question 9: Unit Ownership and Pooling of Funds**

Certain entities may meet all of the other criteria to be an investment company but have only a single investor (for example, a pension plan). The amendments in FASB's proposed Update on investment property entities provides that if the parent of an entity is required to measure its investments at fair value under U.S. GAAP or the parent entity is a not-for-profit entity under Topic 958 that measures its investments at fair value, the entity would not need to meet the unit-ownership and pooling-of-funds criteria to be an investment property entity. Considering the Board's concerns identified in paragraph BC24, should the criteria in this proposed Update be amended to address situations in which the entity has a single investor?

We generally agree with this requirement. However, we believe it is also important to allow for diverse forms of ownership. It is possible for an entity to be managed by a party which has no equity at risk and where all of the equity at risk is contributed by a single owner who is independent of the manager. Such a situation should not preclude treatment of the entity as an investment company.

In connection with the Board's concerns in paragraph BC24, we believe those concerns could be best addressed by precluding an investment company from controlling the operations of its investee. We believe that the criteria related to investing for income purposes must be separated from control over the operations of the investee in order to differentiate such investments from operating investments. Entities formed in order to obtain third-party equity to help finance their operations should not qualify as investment companies.

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**Question 10: Unit Ownership and Pooling of Funds**

The unit-ownership and pooling-of-funds criteria in the proposed amendments do not consider the nature of the entity's investors for evaluating if an entity is an investment company. That is, the criteria do not differentiate between passive investors and other types of investors. Do you agree that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria?

We agree with the proposed guidance in situations where there are multiple investors. However, in situations involving a single investor we believe the pooling-of-funds criterion should consider the nature of the entity's investors and allow for more judgment to be exercised in assessing single investor entities as discussed in our response to Question 9.

**Question 11: Fair Value Management**

The proposed amendments would require that substantially all of an investment company's investments are managed, and their performance evaluated, on a fair value basis. Do you agree with this proposal? If not, why? Is this proposed amendment operational and could it be consistently applied? If not, why?

We believe the requirement that substantially all of an investment company's investments be managed and their performance evaluated on a fair value basis is the single most important criteria to being an investment company.

**Question 12: Interests in Other Entities**

The proposed amendments would retain the requirement that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating entity provides services to the investment company. However, the proposed amendments would require an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. An investment company would not consolidate controlling financial interests in a master-feeder structure. Do you agree with this proposed requirement for fund-of-funds structures? If not, what method of accounting should be applied and why? Should a feeder fund also consolidate a controlling financial interest in a master fund? Please explain.

We agree that an investment company should not consolidate controlling financial interests in a master-feeder structure. We agree with the requirement to consolidate investments in other investment companies in a fund-of-funds structure only when the other investment company is wholly owned. We do not agree with consolidation of partially owned investment companies which have non-controlling interests, as described in our response to question 13 below.

In addition, we believe that consolidation of other investment companies could result in inconsistencies in situations where parent and subsidiary investment companies measure similar investments using different methods, inputs and assumptions.

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**Question 13: Interests in Other Entities**

The proposed amendments would require an investment company to consolidate a controlling financial interest in an investment property entity. Should an investment company be subject to the consolidation requirements for controlling financial interests in an investment property entity? If not, what method of accounting should be applied and why?

We do not agree that investment companies should consolidate investment property entities. We believe wholly owned investment property entities should be evaluated to determine whether they are operating assets or investments. To the extent they are determined to be investments, we believe they should be presented on a net asset basis at fair value. Investments in operating assets controlled by the investment company are inconsistent with the purpose of an investment company and should not be permitted. The fair value of the individual assets and liabilities of a partially owned investment property entity may not accurately reflect the fair value of the net investment to the investment company.

Additionally, consolidation of investments in investment property entities or other investment companies which are partially owned creates a reporting perception that the assets are direct investments of the reporting entity when in fact they are indirect investments.

**Question 14: Interests in Other Entities**

The proposed amendments would prohibit an investment company from applying the equity method of accounting in Topic 323 to interests in other investment companies and investment property entities. Rather, such interests would be measured at fair value. Do you agree with this proposal? If not, why?

We agree with the proposed guidance that investment companies should not account for their investments using the equity method as set forth in Topic 323. All investments made by investment companies should be measured at fair value.

**Question 15: Presentation and Disclosure**

An investment company with a controlling financial interest in a less-than-wholly-owned investment company subsidiary or an investment property entity subsidiary would exclude in its financial highlights amounts attributable to the noncontrolling interest. Do you agree that the amounts attributable to the noncontrolling interest should be excluded from the calculation of the financial highlights? If not, why?

Since we do not agree that an investment company should be required to consolidate its investments in other partially owned investment companies or investment property entities we also do not agree with the proposed requirement to separate an investment company subsidiary from the parent investment company when making disclosures related to financial highlights. Such separation is confusing and illustrates why investment companies should not consolidate partially owned investment companies or investment property entities. See also our response to question 13 above.

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**Question 16: Presentation and Disclosure**

If an investment company consolidates an investment property entity, the proposed amendments require the investment company to disclose an additional expense ratio that excludes the effects of consolidating its investment property entity subsidiaries from the calculation. Do you agree? If not, why?

Since we do not agree that an investment company should be required to consolidate its investments in investment property entities, we also do not agree with proposed requirement to disclose an additional expense ratio. We do agree at the expense ratios that would result from consolidation of investment property entities would impact the expense ratio. However we believe this could be better addressed by not requiring consolidation of these investments as opposed to modifying the disclosures. If investments in investment property entities were presented in a net asset basis at fair value, there would be no need to adjust the expense ratios.

**Question 17: Presentation and Disclosure**

Do you agree with the additional proposed disclosures for an investment company? If not, which disclosures do you disagree with, and why? Would you require any additional disclosures and why?

No response to this question.

**Question 18: Retention of Specialized Accounting**

The proposed amendments would retain the current requirement in U.S. GAAP that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Do you agree that this requirement should be retained? If not, why?

We agree the proposed amendment retain the current requirement.

**Question 19: Effective Date and Transition**

An entity that no longer meets the criteria to be an investment company would apply the proposed amendments as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption by calculating the carrying amounts of its investees as though it had always accounted for its investments in conformity with other applicable U.S. GAAP, unless it is not practicable. If not practicable, the entity would apply the proposed amendments as of the beginning of the period of adoption. Do you agree with this proposal? If not, why?

We agree with the proposed transition methods as outlined. We believe it would not be practical to require retrospective information.

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**Question 20: Effective Date and Transition**

How much time would be necessary to implement the proposed amendments?

No response to this question.

**Question 21: Effective Date and Transition**

The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?

We agree with the proposed amendments to prohibit early adoption.

**Question 22: Nonpublic Entities**

The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities? If not, how should the proposed amendments differ for nonpublic entities and why?

We agree that the proposed amendments should apply equally to public and nonpublic entities.