

February 15, 2012

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

Re: File Reference No. 2011-200

Dear Ms. Cospers:

We are pleased to comment on the proposed Accounting Standards Update (ASU) *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*.

Overall, we support the proposed ASU's objective to develop, as part of a joint consolidation project, consistent criteria for determining whether a company is an investment company.

Responses to specific questions posed in the proposed ASU

Question 1: 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 agree with the proposed criteria and believe that the criteria would identify the entities that should be within the scope of ASU Topic 946.

Question 3: 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 agree with the proposed removal of the scope exception in Topic 946 and believe that 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.

Question 5: 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 believe that the proposed guidance is operational, and could be consistently applied.

Question 6: 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 agree with the examples.

Question 7: 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?

In general, we agree with this proposed criterion. However, we believe that there are certain situations in which the criterion would not be met, but an entity should still be able to qualify as an investment company.

We believe that if fair value is the appropriate accounting for investments made for investment returns, that accounting should be available to any entity involved in the investing activity, regardless of number of investors.

Certain structures (for example, limited partnerships) may be established and have a single substantive investor (perhaps a pension plan) that is required to present their investments at fair value, with changes in fair value being recognized in income. These entities have traditionally been treated as investment companies.

Question 9: 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?

It is common for bank collective funds, limited partnerships, and similar vehicles to be established with only one substantive investor (or one group of related investors) and, in fact, some investors require advisers to establish such vehicles, parallel to existing multi-investor vehicles, to protect their interests, both legally and economically (that is, to not be subject to large cash inflows and outflows from other investors which may affect overall returns). In many instances, these single investors are pension plans (both private and government), sovereign wealth funds, endowments, or individuals (including family offices) which are required to present investment holdings at fair value under their specialized GAAP and recognize changes in fair value through earnings. Long-standing practice has been to account for these entities as investment companies and, for bank collective funds, the use of fair value accounting (and a reporting format similar to investment company presentation) is generally required under banking regulations. Where an entity holds itself out as an investment company and its investor is otherwise permitted or required to record investments at fair value through earnings, we do not believe the entity should be precluded from applying Topic 946 simply because it does not have multiple investors.

Question 10: 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 that the nature of the investors should not be considered in evaluating the unit ownership and pooling-of-funds criteria.

Question 11: 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 agree that all of an investment company's investments should be managed, and their performance evaluated, on a fair value basis.

Question 12: 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 or apply the equity method of accounting for an interest in an operating company. We also agree that an investment company should consolidate other investment companies when they have a controlling financial interest in a fund-of-funds structure. We recommend that the Board provide guidance as to the quantitative or qualitative criteria that would constitute "controlling financial interests." Further, we agree that consolidation should not be required in a master-feeder structure and that feeder funds should not consolidate a controlling financial interest in a master fund. The prevalent practice of attaching the master fund financial statements to the feeder fund financial statements provides a much better presentation of the financial condition and results of operations of both entities.

Question 13: 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 believe that investment companies should be subject to the consolidation requirements for controlling financial interests in investment property entities.

Question 14: 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 proposal.

Question 15: 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?

We agree with the proposed exclusion of amounts attributable to the noncontrolling interest from the calculation of the financial highlights.

Question 17: 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?

We believe that the disclosure proposed in paragraph 946-20-50-15 potentially is problematic in that it would require an investment company to disclose whether it intends to provide financial

support to any of its investments. We believe this could be problematic from both a preparer and auditor perspective.

From a preparer perspective, we are concerned that such disclosures may come to be viewed as binding commitments. From an auditor perspective, we believe that it is difficult to audit intent.

Question 18: 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 that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation.

Question 19: 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.

Question 20: How much time would be necessary to implement the proposed amendments?

We believe that the requirements related to measuring investments at fair value will not take significant time to adopt, as investment companies should already have that information.

However, we believe that the proposals that would require consolidation where it had not been required in the past would be more time-consuming to adopt. We recommend the final standard not be effective for at least one full calendar year after the year of issuance.

Question 21: The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?

We do not believe that early adoption should be permitted.

We would be pleased to respond to any questions you may have concerning our comments. Please direct any questions to Rick Day (563-888-4017) or John Hague (312-634-3354).

Sincerely,

A handwritten signature in cursive script that reads "McGladrey & Pullen, LLP".

McGladrey & Pullen, LLP